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RETURNING CONFIDENCE

Cover Story on Page V

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Returning Confidence

[THE JOURNAL COVER ILLUSTRATION: FROM A PAINTING BY WALTER DE MARIS]

AMONG all of America's tangible and intangible assets, rate high the will of its citizens to cooperate with each other!

That the will and the determination to cooperate is a constant, strong and persistent quality is amply evidenced by the attitude of the public in general toward banks in those communities which have had experiences likely to disturb public confidence. Even in such places, the general public has continued to cooperate through the banks.

The aggregate of daily deposits furnishes the bank the means to give to industry and business the credit necessary for continuous operation. Industry and business in turn are enabled to give to the public useful services, and to men and women, necessary employment. And then in turn the payroll by many channels, some direct, some indirect and devious, gets back again to the bank. This is cooperation of the most practicable and profitable kind.

Many of the individual depositors may disdain to confer even a glance upon others as they brush by them in the corridors of the bank or on the streets, but for all of that each depositor, be his motive what it may, is a cooperator still.

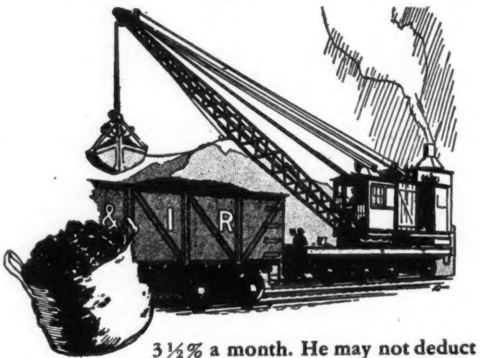
Without this cooperation, business and industry would be paralyzed, progress would be stopped, in all likelihood there would be a recession of civilization itself. Happily, the habit and the spirit of cooperation is too strong to be more than temporarily interrupted by any financial upset. Though money fear may take possession of a man today, the feeling soon passes and is supplemented by the old habit of sturdy thrift, and business procedure in the handling of individual finances.

For this month's cover illustration, the artist depicts a scene, the counterpart of which most bankers will easily recall. Though a man may hoard money as he will, he sooner or later gives up the practice and takes his funds to a bank where besides earning for him his rate of interest, they may be profitably employed to provide the necessary credits that he and others like him may participate in the benefits of going enterprises.

THE well being of the community, of the nation, of the world requires that the cycle of business be maintained.

Confidence keeps it going—returning confidence adds to its speed!

The Cost of Retailing Money



THOSE who know that 80% of the nation's population cannot borrow from banks do not question the economic need for small loan agencies. Without them, the majority of families in times of financial stress would have nowhere to turn for funds to pay their bills and buy the current necessities of life.

▼ It is the great and widespread importance of small loans which merited the consideration of the Russell Sage Foundation on the question: "What should they cost?"

▼ This philanthropic institution answered with a Uniform Small Loan Law which provided for a maximum charge of 3½% a month on loans up to $300. Twenty-five states have adopted this law, most of them with little or no revisions.

▼ To those who do not realize that the bank rate is a "wholesale" rate, charged usually on large loans to finance industry and commerce, this small loan rate may seem high. Upon deeper thought, it cannot be compared with bank interest. It is a "retail" price to the consumer, to pay the cost of supplying money in "broken lots."

▼ A $20,000 loan may be made on good security by a bank at one rate of interest. The same amount of money loaned to 200 different people in amounts of $100 each would cost the lender much more.

▼ 200 interviews, 200 investigations, and 2,400 monthly payment collections during a year obviously cost far more than one interview, one investigation, and one collection.

▼ No one would expect to buy a basket of coal at carload prices. Loaning money in amounts under $300 is a retail business in cash.

▼ No law restricts the retailer of goods on the profit he may charge. If a merchant in food or furniture determines his selling price by adding 50% to 100% to his wholesale cost, to pay operation cost and profit, that's his business.

▼ Yet the laws of many states restrict the money retailer's gross profit to 3½% a month. He may not deduct his interest in advance as banks do. He may not impose fines or extra charges for anything. His is the only business where every item of cost is clear to the customer, where there are no hidden charges.

▼ In spite of these stringent requirements, Household, America's foremost family finance organization, was able over two years ago (because of large volume and efficient management) voluntarily to reduce its rate to 2½% a month on amounts above $100 and up to $300, almost a third less than the lawful maximum permitted by most state small loan laws.

▼ Competition and not legislation may be depended upon for a further reduction in rates, when and if possible.

▼ Household is concerned not only with the temporary relief of its customers' financial troubles.* It endeavors to help them attain permanent financial security.

*MONEY MANAGEMENT FOR HOUSEHOLDS, *a helpful booklet on budgeting family income, leading to the happiness of financial security, is offered without charge to all. Telephone, call, or write for a copy.*

HOUSEHOLD
FINANCE CORPORATION . . .
Headquarters: Palmolive Building, Chicago, Illinois
..(138 Offices in 79 Principal Cities)..
(Consult your telephone directory for the office nearest you) . . .

Turn the dial to your NBC Station every Tuesday night at 8:00 Central Daylight Saving Time and be a guest of the Household Celebrities, featuring America's foremost stars of the opera, concert, and stage, as well as leading thinkers in affairs of national importance.

WOOING BETTER TIMES *through* BETTER UNDERSTANDING

When the business of retailing money is better understood, more stable business conditions can be expected. For the paying of debts helps to restore capital and prosperity follows. Such organizations as Household make it possible for hundreds of thousands of families, in times of emergency, to pay their bills. This advertisement, part of an aggressive campaign appearing in newspapers of four and three-quarter million circulation, tells how such companies operate. Those desiring to inform themselves about the business of family loans, are invited to write to Dept. A7, Household Finance Corp., Palmolive Building, Chicago.

This Month's Journal *and* Your Own Bank

THE United States District Court of the Eastern District of Pennsylvania handed down a decision on June 17, 1931, directly affecting the status of more than $11,000,000,000 in bank credit secured by stocks and bonds. In this JOURNAL Thomas B. Paton shows the clear meaning of this decision and its fundamental importance to every banking institution in the country.

In effect the court has informed banks that if a borrower becomes bankrupt the bank has no right to sell the borrower's collateral without asking the permission of the bankruptcy court. The decision is based on a decision of the United States Supreme Court in February of this year denying the right of a mortgagee of land to bring foreclosure proceedings in a state court after the mortgagor's bankruptcy and declaring that the bankruptcy court had exclusive jurisdiction. Judge Paton's article is a document which should be kept for reference because the final chapter in deciding the issue has yet to be written. The article supplies a valuable background to the Pennsylvania court's action and cites a number of outstanding cases involving the collateral of bankrupt borrowers, both prior to the Bankruptcy Act of 1898 and after.

In the light of these cases, writes Judge Paton, "it is fair to assume that the rule announced in the Henry case, that the pledgee of securities with power to sell at will must, in every case where the pledgor becomes bankrupt, first obtain the consent of the Bankruptcy Court, is not likely to be upheld by the higher court and that bankers need not be particularly concerned unless and until the decision in the Henry case is confirmed."

D. RICHARD YOUNG has written for the September JOURNAL the first of several articles on profits in industry. In 1927 and 1928 Mr. Young wrote a series of articles on the same subject. Meanwhile economic conditions have passed through certain fundamental changes and the average corporation which was reporting new high earnings records during 1928 and 1929 is having difficulty in avoiding the use of red ink on its income account this year. Many concerns have lowered their costs so as to operate at a profit under the more rigorous competition now prevailing, while others, apparently, are only marking time and hoping for the return of general prosperity. Following this introductory article the JOURNAL hopes to publish others by Mr. Young on steel, automobiles, food, clothing and other major industries from the standpoint of bankers who must keep abreast of conditions in these different lines, in connection with the financial statements of individual companies which they are called upon to analyze.

GILBERT T. STEPHENSON believes that careful planning is the first and most essential step toward profits in trust work. "It Pays to Study the Market for Trust Service" is the name of the article. Mr. Stephenson believes that certain areas have an oversupply of trust service while other regions do not have enough. The only way to find out whether a trust department will become an asset or an expensive burden, he declares, is to make a thorough survey of the prospects. "It is time," declares the writer, "for the law of supply and demand to begin to assert itself in the trust field." There are three questions which a bank should answer by careful

investigation before embarking in the fiduciary business: What is the geographic radius of service? What is the potential amount of trust business in a given area? And what can be done to reduce overlapping in trust service? The chief value of the article to trust companies and trust departments is the fact that it raises no questions which it does not answer. All over the country, he says, there are areas with enough trust business to support one trust department, trying to support three or four and all of them living from hand to mouth. He suggests two solutions for a situation like this, one of which is for the competing institutions to get together and organize a separate company for trust business exclusively.

ROLF NUGENT has investigated the credit sources of small merchants who do not have access to bank credit and has described his discoveries in an article called "Where Small Merchants Borrow." The demand for such credit has resulted in the building up of a huge secondary banking system consisting of credit unions, industrial banks, special financing arrangements through wholesale houses and a kind of cooperative credit and savings society called an "axia." There are others and Mr. Nugent has collected the essential facts on each. The result is a picture of a rather chaotic situation which does not lend itself readily to effective regulation.

HERBERT M. BRATTER discusses gold as a commodity which the United States Government uses in great quantities. "America's Gold Business" is something apart from America's gold currency. The Government operates ten establishments for the purchase and assay of gold and has a regular scale of prices at which it will perform various services in connection with gold. In the evolution of finance from the days when gold dust and hard money were the only recognized currency the actual metal has come to assume more and more a place of unreality. It becomes a habit to think of gold in terms of figures on paper and is sometimes difficult to keep clearly in mind just what the hard yellow stuff is that gives each dollar its value.

JUDGE PATON has a second important article in this issue on "The Duty of Corporate Trustees." He summarizes the recent decision of the New York Court of Appeals involving the estate of Frederick H. Clark. The decision reverses an order of the Appellate Division upholding a decree of the Surrogate of Westchester County in which a trust company was surcharged for losses brought about by the decline of certain stocks belonging to the estate. This

important case has been discussed by Judge Paton in two previous issues of the JOURNAL during the past year. One of these was an article in August, 1930, called "An Object Lesson in Trust Management" and the second article appeared in the July JOURNAL this year, called "Judicial Guidance in Trust Work." The decision of the New York Court of Appeals distinguishes between the purchase of speculative stocks by a trustee and the retention of such stocks awaiting the arrival of a favorable opportunity to sell. The article includes the full text of the opinion.

GEORGE E. ANDERSON, under the title, "Is Germany So Helpless?", rejects certain front-page fashions of the moment, particularly the tendency to regard Germany and Europe generally as prostrate under a tremendous burden of debts. He leads out into full view several impressive pieces of information about Germany's international financial position which lately have not been receiving the attention they deserve. He directs attention at capital movements in or from Europe which indicate that European nations do not always make it a practice to exhaust the possibilities for self-help before extending hands across the sea with palms up. He estimates that Germany alone has lost $1,250,000,000 during the past four years in the flight of German capital out of Germany. Approximately $250,000,000 of this has left the Reich in the last nine months.

NORMAN J. WALL is the author of a useful article an agricultural credit corporations called "The Gap in Farm Loan Agencies." He is well aware of the difficulties encountered in operating a credit corporation, particularly under the old ruling by the Farm Loan Board stipulating that the interest rate which could be charged to borrowers should not exceed 2 per cent above the rediscount rate of the Federal Intermediate Credit Banks. The new ruling permits a rate of 3 per cent above the rediscount rate of the intermediate credit banks and Mr. Wall shows how an agricultural credit corporation might be administered on these terms at a profit. He suggests that the best way to assure a satisfactory return on the capital investment is to operate the loan organization as an affiliate of the bank.

C. M. SHORT'S "Canada Prepares for Revival" has the advantage of being some distance from the beaten track, which, in this case, means that it is unconditionally optimistic. The depression, he says, has left no mass of economic wreckage in the Dominion. He calls attention to the fact that one-fourth of all foreign investments held by citizens of the United States are in Canada and that the total is nearly $4,000,000,000. In view of this huge stake in the future and present prosperity of Canada it is certainly a matter of interest to American bankers to know that the country faces no serious financial or political difficulties and that the prospects of an economic revival are unusually good.

AMERICAN BANKERS ASSOCIATION JOURNAL

Collateral as Affected by the Borrower's Bankruptcy

By THOMAS B. PATON
General Counsel, American Bankers Association

Recent Federal District Court Decision That Upon Bankruptcy of Borrower the Power to Sell Securities Under Collateral Note Cannot Be Exercised Except by Consent of Bankruptcy Court, Not in Line with Prior Rulings. Effects of the Decision.

BILLIONS of dollars of stocks and bonds are held by the banks of the country as security for demand loans under collateral notes which give the bank the right to sell at will when demand for payment is not met or upon non-compliance with other familiar conditions of such notes. To indicate the extent of such holdings, the Report of the Comptroller of the Currency for 1930 shows that on June 30 of that year 24,079 reporting banks in the United States held among their resources "loans secured by United States Government and other bonds, stocks and securities (exclusive of loans to banks) $11,532,995,000."

Essential to Safety

A LARGE proportion of the vast amount of collateral held as security for loans consists of readily marketable collaterals and the ability of the bank promptly to dispose of the collateral by immediate sale at the market price in case of need and when the borrower fails to live up to his contract is essential to its safety. This right to sell and convert into money is conferred by contract with the borrower and is one of the conditions in consideration of which the loan is made.

It would be surprising indeed if the bank should be informed upon the bankruptcy of a particular borrower that the bank could not sell its collateral at will, as permitted by the contract, but must first apply to the Bankruptcy Court for and obtain its permission to sell, causing delay which might deprive the bank of the opportunity to take advantage of a temporary favorable condition of the stock market and cause it serious loss. And yet, in a nutshell, this is precisely what has been held in a recent decision of a Federal District Court in Pennsylvania (Matter of Henry, U. S. District Court, Eastern District, Pennsylvania, June 17, 1931), which decision has caused some concern to bankers to whose attention it has been brought.

The decision, if sound, would write into the collateral notes of all borrowers a modification to the effect that should the borrower become bankrupt, the bank's right of sale of the collateral at will is not absolute, but is conditioned upon application to and permission by the Bankruptcy Court.

The decision in the Henry case is based upon a decision of the Supreme Court of the United States rendered in February of this year denying the right of a mortgagee of land to bring foreclosure proceedings in a state court after the mortgagor's bankruptcy and holding that the Bankruptcy Court had exclusive jurisdiction (Isaacs v. Hobbs Tie & Timber Co., 51 Sup. Ct. 270). An examination of this basic decision and of the later decision in the Henry case will be of value for the attention of banks interested in the security of collateral loans and to their attorneys.

Foreclosure of Bankrupt's Mortgage

IN the Isaacs case, after the mortgagor of land in Arkansas became bankrupt, the mortgagee instituted foreclosure proceedings in the state court. The Supreme Court said that "the title and right to possession of all property owned and possessed by the bankrupt vests in the trustee as of the date of filing the petition in bankruptcy," and further "that upon adjudication, title to the bankrupt's property vests in the trustee with

actual or constructive possession and is placed in the custody of the Bankruptcy Court," from which it follows, said the court, "that the Bankruptcy Court has exclusive jurisdiction to deal with the property of the bankrupt and when this jurisdiction has attached the court's possession cannot be affected by actions brought in other courts and the trustee may obtain an injunction to restrain the mortgagee from foreclosing the mortgage in the state court."

The Henry Case

IT is upon the doctrine announced in the Isaacs case that the Federal District Court bases its decision in the Henry case. In the latter case, the bankrupt was the owner of investment securities which he had pledged to different banks for loans, accompanied by the usual form of collateral note giving the pledgee in effect the power to sell at will, to apply the proceeds to the repayment of the loan and to turn over to the pledgor the surplus, if any. The order of the referee restrained the pledgee banks from exercising the power to dispose of the collateral. In confirming the order of the referee, the District Court said the whole question is whether, after the assets of the debtor have passed into the custody and control of the Bankruptcy Court, anyone will be permitted without the consent of the Bankruptcy Court to interfere with such custody by a sale of the assets or otherwise. The court was not impressed with the objection that as the power of sale was given to the pledgee by contract, the Bankruptcy Court was without power to do anything which impaired the obligation of contracts and it repeated that "the sole question is whether the Bankruptcy Court has exclusive jurisdiction to make the sale or whether in defiance of the Bankruptcy Court some other court or the pledgee himself can sell."

Referring to the rule declared by the Supreme Court in the Isaacs case "that another court cannot decree the sale of assets in the possession and under the control of the Bankruptcy Court without the leave of the latter court," the Federal District Court gave consideration to the question whether the doctrine of that case applied to the case before it in view of the difference in facts with respect to the character of the pledge. It pointed out that in the Isaacs case the pledgee's right was to sell land through the process of a court and after the land became bankruptcy assets the land could not without permission of the Bankruptcy Court be sold by another court under the pledge. In the instant case, it said, there was a like pledge, not of land, but of personal property and the pledgee had the right to sell not merely through the processes of a court, but to himself sell without recourse to any court. Notwithstanding this difference in the factual situation, the court reached the conclusion that a like ruling should be made that the pledgee of securities under power of sale at will can sell only by leave of the Bankruptcy Court.

As this is a somewhat startling doctrine, we quote somewhat fully from the opinion of the court: The court said it was "in full accord with the proposition that the position of the pledgee cannot be disturbed by any summary action of the Bankruptcy Court but the right of the pledgee is open to attack only by a plenary suit." But the question before it was quite different, namely, "one of the right of the pledgee to take the assets of the bankrupt's estate out of the control of the Bankruptcy Court by selling them." The court pointed to the daily exercise of the judicial power to stop such sales by mortgagees to whom seized lands have been conveyed; by judgment creditors who have taken land in execution; by landlords who have distrained property for rent and by plaintiffs in attachment in execution proceedings.

Collateral Pledgee Not Differentiated

INQUIRING whether pledgees under collateral loans should be an exception to the general rule, the court said the only theory upon which the case of the pledgee of collateral might be differentiated from that of other pledgees is that the collateral holder is not a pledgee but an owner and as such owner the thing pledged forms no part of the bankrupt's assets or at most the Bankruptcy Court has no possession but only the right to possession which can be reduced to actual possession only by a plenary suit. Negativing this theory and continuing its reasoning, the court said:

"This theory is provocative of a discussion which has no end. The property here is theoretically of the type known as choses in action. The pledgee of bonds or of stocks holds possession of nothing except the evidence of a debt due to the pledgor or of his right to share in the assets of a corporation. A mortgagee is in form not a pledgee but the owner of the land described in his mortgage subject to a defeasance. All which is left to the mortgagor or owner is a right of redemption. None the less the now accepted view is that a mortgagee is a pledgee or lien holder. The ordinary form of corporate bonds and certificates of stocks, it is true, have come to be regarded not as evidences of debt or of a share in corporate assets but as in themselves property. Pledgees of bonds or stocks are none the less pledgees with a right of lien. This is the only real right they have. We see no difference in this respect between them and the pledgees of land. We are not unmindful of the difference between the possession of a power and the propriety of its exercise. A Bankruptcy Court is as much bound to have regard to the rights of pledgee creditors as of any other creditors and not to forget that the latter may have priority of right. A pledgee, because of this, should always be at liberty to apply to the Court for leave to enforce his pledge.

"As indicated we think the order of the Referee should be confirmed but that it should be modified by the allowance of leave to any pledgee of the investments of the bankrupt to apply for leave to enforce the pledge by sale or otherwise. It can then be determined in each instance whether the pledgee should be permitted to sell or have terms imposed. Doubtless the learned Referee thought the pledgee would have this right anyhow, and hence did not incorporate it in the order entered. It would, however, be well to make it clear that the pledgees are not concluded by the order."

Effect of Decision

IF the decision of the Federal District Court correctly states the law, then no bank holding the pledged collateral of a borrower who becomes bankrupt can exercise its contract right to sell at will but must in every case first obtain permission of the Bankruptcy Court, and important changes in the conditions upon which collateral loans are made are bound to follow, for the power of immediate sale of a bankrupt's securities would be valueless and in any given case the bank might suffer serious loss as the result of its inability to convert marketable securities into cash quickly. Furthermore, such a decision gives rise to uncertain questions. If the bank sells the bankrupt's collateral, without applying to the court for its consent, would it be held liable for conversion? Presumably so. On the other hand, will the purchaser take good title? He doubtless would, if the securities were negotiable and purchased in good faith so as to give him the status of a holder in due course under the Negotiable Instruments Act. The decision in the Henry case is bound to have an important bearing upon existing banking practices should it be affirmed by the Supreme Court.

However, a review of prior decisions of the United States Supreme Court and of the lower Federal courts would indicate that, contrary to the decision in the Henry case, the law has been quite well settled that a pledgee under power of

sale, has the right to sell according to the terms of the pledge notwithstanding the bankruptcy of the borrower, without asking the consent of the Bankruptcy Court and that the power of the court to enjoin the sale in accordance with the contract will not be exercised unless there be fraud or oppression. This is very different from a rule that in no case can there be a valid sale of securities of a bankrupt which have been pledged in a collateral note unless the consent of the Bankruptcy Court is first obtained. A brief reference to some of the decisions will be made.

In Yeatman v. New Orleans Sav. Inst., 95 U. S. 589, decided in 1877, where an assignee in bankruptcy demanded the surrender of a bankrupt's collateral by the pledgee bank, the Supreme Court held that until the note was fully paid, the bank was not bound to return the collateral to the bankrupt or to the receiver or assignee in bankruptcy. The court said: "The receiver and assignee seem to have acted throughout upon the theory that they had the right, immediately upon and in virtue of the adjudication in bankruptcy, to assume control of all property of every kind and description, wherever held, in which the bankrupt had an interest, without reference to the just possession of others lawfully acquired prior to the commencement of the proceedings in bankruptcy and without reference to the liens, encumbrances or equities which existed against the property at the time of the adjudication in bankruptcy. We have seen that such a theory is unsupported by law." This decision, of course, was rendered prior to the present Bankruptcy Act of 1898.

Recognized Bank's Right

IN Hiscock v. Varick, 27 Sup. Ct. 681 (1907), decided under the present Bankruptcy Law, where a bank sold pledged securities after the bankruptcy of the pledgor and sought to prove claim for the balance, the Supreme Court positively recognized the right of the bank to make the sale without first applying to the Bankruptcy Court. It said the bank had an absolute power of sale coupled with an interest and it pointed to Section 57h of the Bankruptcy Act which provides: "The value of securities held by secured creditors shall be determined by converting the same into money according to the terms of the agreement pursuant to which such securities were delivered to such creditors or by such creditors and the trustee, by agreement, arbitration, compromise or litigation as the court may direct and the amount of such value shall be credited upon such claims and a dividend shall be paid only on the unpaid balance."

Applying this statute to the case before it, the court said: "The court was by this subdivision empowered to direct the disposition of the pledge or the ascertainment of its value, where the parties had failed to do so by their own agreement. It is only when the securities have not been disposed of by the creditor in accordance with his contract that the court may direct what shall be done in the premises. Of course, where there is fraud or a proceeding contrary to the contract, the interposition of the court may properly be invoked."

Here, then, is a direct ruling by the highest court that securities pledged to a bank with power of sale at will, can be sold by the pledgee without first obtaining the permission of the Bankruptcy Court and it is only in exceptional cases where fraud is alleged or other violation of the contract that the court has the power to enjoin the sale.

A Previous Pennsylvania Case

ALSO in 1900, the same District Court for the Eastern District of Pennsylvania that decided the Henry case (a different judge, however), held directly to the contrary of what is now decided, namely, that the Bankruptcy Act of 1898 does not vest the Bankruptcy Court with any power to interfere with a creditor holding property of a bankrupt in pledge to secure his debt and having a valid lien thereon, in exercise of the power of sale given by the terms of his contract, where there is no claim that such power will be exercised in a fraudulent or oppressive manner. (In re Brown, 104 Fed. 762.)

Again, in 1910, the Federal Court in North Carolina (in re Peacock, 178 Fed. 851, Circuit Court, E. D. North Carolina) has likewise held under Section 57 that the pledgee has the right, as against the trustee in bankruptcy, to sell the pledged property and apply the proceeds to the debt after the adjudication in bankruptcy. The court held that the rights of the pledgee with respect to the lien were not affected by the adjudication in bankruptcy and the pledgee had a right, upon default, to sell the property in accordance with the contract of the parties.

One more citation. In the recent case of Wingert v. Kieffer, 26 Fed. (2d) 59 (U. S. Cir. Ct. App. 4th Circuit, Nov. 1928), the court said:

"It is ordinarily true that the pledgee of stock, unless restrained by the Bankruptcy Court, may proceed to sell under the power of sale contained in the pledge without asking the consent of the court. But it by no means follows that the court should allow the pledgee to make such sale where it appears that the pledgee is one of the petitioners in the bankruptcy proceeding and as such has invoked the power of the court to handle the estate of the alleged bankrupt and by the filing of the petition and securing the appointment of receivers has made it impossible for him to protect his interest on the sale. The power of the court to enjoin the sale by the pledgee cannot be doubted."

This reiterates the general right of the pledgee to sell under the power, without the court's consent, unless the case is exceptional.

Affirmance Doubtful

AS the decision in the Henry case has caused some inquiry at the Office of the General Counsel, we have thought it well because of the tremendous amount of securities in the hands of pledgees which would be affected, to publish the details of the decision and to briefly discuss its purport and effect. In the light of what has heretofore been decided, it is fair to assume that the rule announced in the Henry case, that the pledgee of securities with power to sell at will must in every case where the pledgor becomes bankrupt first obtain the consent of the Bankruptcy Court, is not likely to be upheld by the higher court and that bankers need not be particularly concerned unless and until the decision in the Henry case is affirmed.

The basic reason for the exclusive control of the bankrupt's assets by the Bankruptcy Court is the protection of the interest of all creditors and the function of the court is to see that the assets are properly disposed of, for otherwise pledged property, in which there is often an equity, might be sacrificed by the pledgee to the detriment of other creditors. But while the Bankruptcy Court has exclusive jurisdiction of the assets of the bankrupt, all the decisions prior to that in the Henry case recognize the pledgee's contract right to sell without consent of the court and hold he will not be enjoined or interfered with in the absence of a showing of fraud or other proceeding by the pledgee in violation of his contract rights. Indeed it would seem that where a bank has acquired for a valuable consideration a power coupled with an interest, which neither death nor bankruptcy can revoke, a deprivation of the right of the bank to exercise this power in any legitimate case, by taking it out of its hands and vesting it in the Bankruptcy Court, would be taking its property without due process of law in violation of the Constitution.

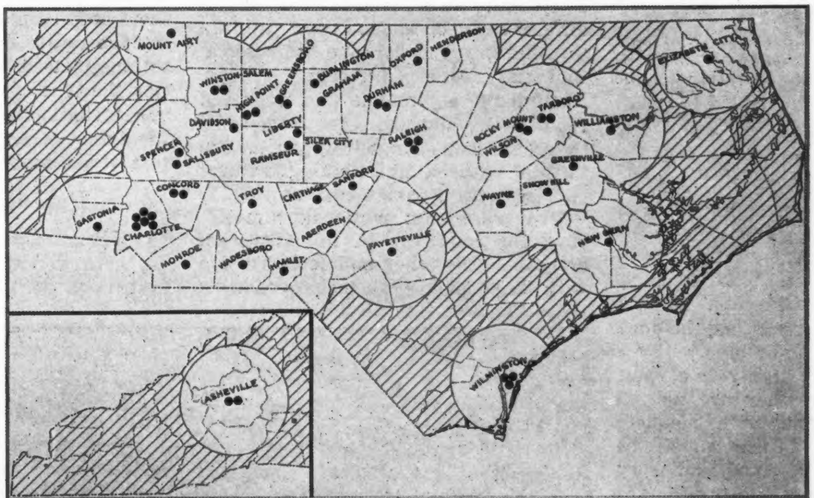
THE SOUTH IS NOT UNGRATEFUL

It Pays to Study the Market for Trust Service

By GILBERT T. STEPHENSON
President, Trust Company Division, American Bankers Association and Vice-President, Equitable Trust Company, Wilmington, Delaware

Banks Will Avoid Losses by Surveying Field Thoroughly Before Attempting to Engage in Fiduciary Business. Opportunity Exists for Men Who Might Qualify as Trust Engineers Whose Function Would Be to Measure the Possibilities of a Given Area.

IN the evolution of trust business in the United States the time has come, I think, for fiduciary associations to give consideration to the making of trust service statewide. In the early years of the trust company movement trust departments were opened here and there over a state without reference to one another. They were opened, furthermore, without much reference to the law of demand and supply. A trust department was opened by an enterprising bank or trust company. It attracted attention. Other banks and trust companies felt obliged to enter the trust field, too, lest their rival capture their bank customers by its offer of this additional service. There was little or no preliminary survey of the trade-area to ascertain its potentialities as a trust field.



Basic outline map copyrighted by Rand McNally & Co., Chicago.

The extent of trust service in North Carolina on the basis of a radius of 25 miles for each institution. Shaded parts of the map are outside the radius of any trust institution

Chance Alone

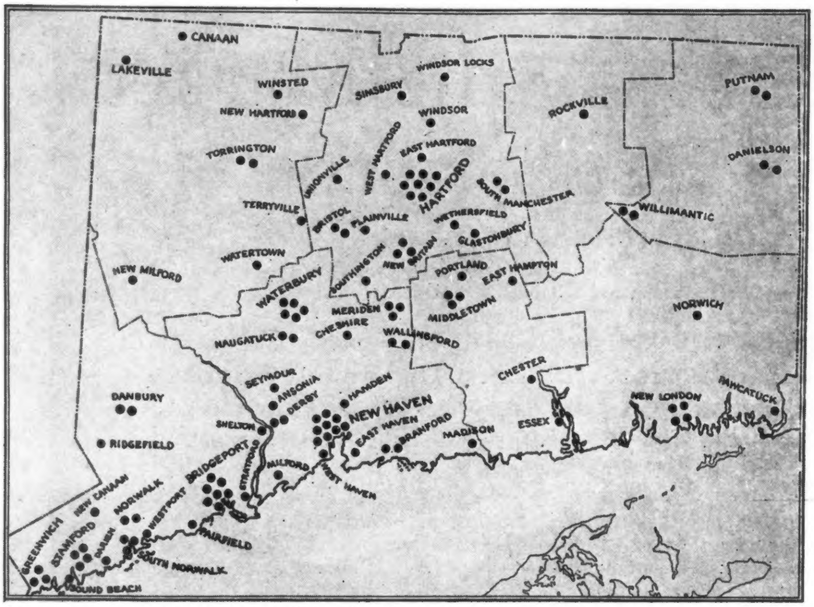
THE result, as revealed by the accompanying maps of three widely separated states, is that, the country over, there is an extraordinary number of laps and gaps in trust company service. That is to say, there are trade-centers with three or four or even more trust departments in areas that do not and are not likely ever to have trust business enough to support more than one or, at most, two properly manned and equipped trust departments. At the same time, there are other trade-areas without any trust departments that have potential trust business enough to support two or more good trust departments. There are trust departments in over-supplied areas that are simply marking time because there is not enough trust business to go round, while people in other areas are without trust company service. It is time for the law of supply and demand to begin to assert itself in the trust field. As the law does become more effective, new trust departments will be opened in certain trade-areas and existing trust departments in oversupplied areas will gradually withdraw from the field.

Nothing short of a reasonable monetary return will justify a bank's entering the trust field. This does not mean that trust business must pay from the start; it probably will not. It does mean that in the course of a reasonable time, ten years, say, it should show a reasonable return on the investment.

Thus to emphasize the importance of the monetary return is not unduly to commercialize trust business. It is only being fair to stockholders of banks. There is no more obligation upon a bank to open a trust department, unless it can be made to pay, than there is to open a real estate or savings or safe deposit or investment or insurance or any other department. The suggestion that a trust department is a quasi-public, if by that one means a quasi-charitable, department is not impressive. There is no reason or excuse for spending stockholders' money in settling other people's estates, administering other people's trusts, and performing other people's agencies at a loss. Trust business should be measured by the same standards as to monetary returns as commercial or savings banking or investment or real estate or insurance or any other business of a departmentized bank or trust company.

Fundamental Factors

IN deciding whether or not a trust department will pay, a banker must take into account several factors,



Basic outline map copyrighted by Rand McNally & Co., Chicago.

Connecticut on a basis of a radius of 25 miles has state-wide trust service

among which are the following:

What is the geographic radius of service of a trust department?
What determines the potential amount of trust business in a given area?
What can be done to reduce overlapping in trust service?

Trust service, with all that it implies, can be rendered by a bank or trust company within a limited area only. Certain important aspects of trust service are largely free of geographic limitations. Safekeeping liquid assets, investing and making stated periodic payments may be done quite as well by an absentee as by a local trustee. But, highly important as these three are, they are not all the essential elements of a complete trust service. To them must be added rendering personal, advisory services, exercising discretionary powers, and managing local, immovable properties. None of these latter three can be rendered to the best advantage except by a local trustee well acquainted with the beneficiaries, the community, and the business habits and practices of the people.

Boundaries of Trade Areas

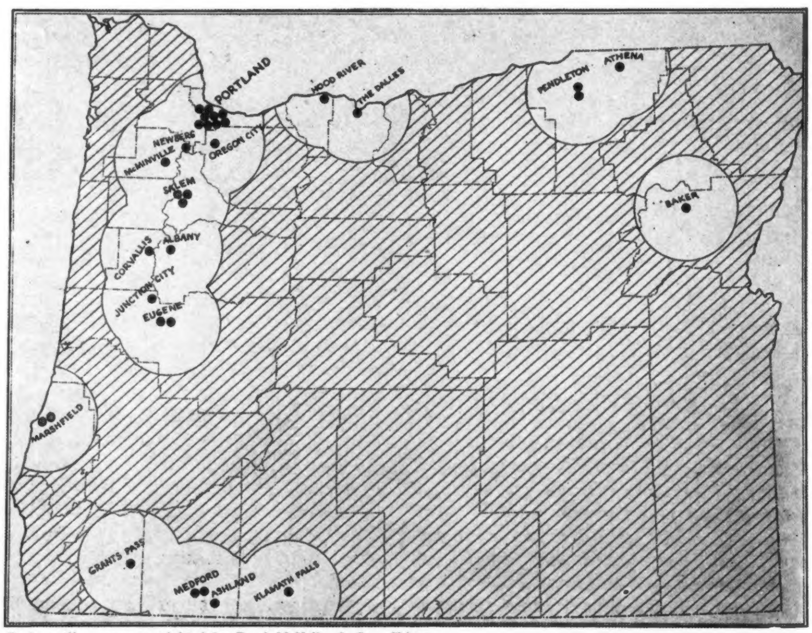
WITHIN what radius may a complete trust service so defined be rendered? A rough and ready test is: How far do people go to trade? But something else than mileage must be reckoned with. Trade-areas are often fixed by trivial, inconsequential phenomena. Boundaries may be little creeks or tracts of woodland or ranges of hills. The people on one side of the creek or woods or hill have very little to do with those on the other. They trade at different stores, attend different churches, send their children to different schools, have their social contacts with different groups. Though the automobile and improved road have enlarged the trade-area, they have not changed human nature in this respect, and trifling natural barriers still separate communities.

The trust man may ask himself: How far can I go in this direction or that or the other and feel at home with its people? The makers of wills and creators of trusts may ask: Will my wife and children feel at home in that bank or trust company? Will they and the trust man understand one another? It is to be seen that there is no mathematical formula for measuring the range of a trust department. It is largely a question of the radius of the personal acquaintance and influence of the trust man and his accessibility to the beneficiaries and theirs to him. I have thought of the radius in level, open sections traversed by good roads as being about fifty miles, and in broken, mountainous sections as being about twenty-five miles. The accompanying maps are drawn to radius of twenty-five miles.

Any active banker or trust man knows fairly accurately the natural boundaries of the trade-area of his institution, and the range of his trust department is not likely to extend beyond those boundaries. These maps illustrate how the trust service in any state may be visualized. A list of the active trust institutions in any state may be obtained from the state banking department. By embodying them on a map of the state and drawing the radius of service of the institutions plotted, taking into consideration the type of country in which they are located, anyone can see at a glance the extent of trust service in any section of the state.

Potential Volume

THE amount of possible trust business in any given area depends, first, upon the property that will pass



Basic outline map copyrighted by Rand McNally & Co., Chicago.

Oregon, with great mountainous and wooded regions, has wide areas outside the radius of its trust institutions

at death from one generation to the next, and, second, upon the amount of property that should be left in trust. The bureau of vital statistics and the probate court records will reveal the number of deaths and the number of appointments of executors and administrators in the area within a given time. The court records will also show the amount of property held in trust under will or by order of court. But the amount of property tells only a part of the story so far as trust business is concerned. What kind of property is it? How much of it is real estate? livestock? goods? business assets? Real estate usually passes direct to heir or devisee without any commission to the administrator or executor. An estate composed largely of a going business—a sole proprietorship, partnership, or close corporation—built around one man with only a salvage value after he is gone, is not attractive trust business. In determining the trust possibilities of an area, one should investigate the liquid assets—the savings deposits, the life insurance in force, the investment in stocks and bonds. These are the types of assets that lend themselves to trust administration.

Once a trust department enters a field, it cannot be selective about the assets it will accept. It will be obliged to receive and administer as best it can all the assets of all sorts that come to it under the executorship or trusteeship that it has accepted. These assets will represent a cross-section of the wealth of the community. While it cannot be selective after it enters the field and accepts the business, it can and, in justice to its stockholders, it should exercise discretion in the first instance about entering the field at all. If the trade-area is overwhelmingly agricultural, if its wealth is mostly land and livestock and goods, if its leading business enterprises are sole proprietorships, partnerships, and close corporations—one-man concerns —if its people are not savings depositors, or investors except in land, or life insurers, it is an unpromising field for trust business.

A Reasonable Share

THE next question is: If a trust department is opened, how much of the potential trust business may it reasonably expect? Say for the moment that it is the only trust department in the area, that its rivals are individuals and not other banks or trust companies. The court records will tell how many executorships, administratorships, guardianships, and testamentary and court trusteeships may be expected. But how many of these will the trust department receive? There is no exact answer to this question, but the following figures from other fields may be helpful:

In England, where trust corporations have been in the business twenty-three years, they are handling about 17 per cent of the estates—one out of six. In New Castle County, Delaware, where trust departments have been operating about forty years, about 11 per cent of the estates are in the hands of banks and trust companies. In North Carolina, an agricultural state, where one trust company has been actively engaged in trust business about forty years and others for shorter periods, about 3½ per cent of the estates is now in the hands of banks and trust companies. Based on volume rather than number, the percentage would, no doubt, be higher, for the average size of an estate in the hands of a trust department is greater than that of one in the hands of an individual. I estimate—and this is only an estimate—that in an area in which an active trust department has been operating as long as one full generation, about one fourth in volume of the estates would be in its hands for settlement or administration.

Nearer Home

ANOTHER thing that will throw light upon the amount of potential trust business of a bank or trust company is a study of the possibilities in the bank's or trust company's own ranks. How many of its officers, directors, stockholders, larger depositors will be disposed to name it under their wills? What would their trust business amount to? The active officers of a well established bank have such an intimate knowledge of the attitudes as well as the estates of their larger depositors as to have a pretty reliable judgment about their giving a bank or trust company their trust business.

My main point is that a thorough, painstaking, discriminating study of the possibilities of trust business in the trade-area of the bank or trust company should be made before a trust department is opened or, if already opened, before money is spent to develop it. It is always best to look before one leaps. It is better to spend a dollar to learn beforehand that a trust department cannot be made to pay than to lose ten dollars afterwards in the vain effort to make it pay. The sources of study are at hand—the vital statistics, the tax books, the probate records, the bank's own records. In advocating this prestudy I am only advocating what men in other lines of business have long been doing.

Before a chain store company selects the site for another store, it stations a man on the street in front of each of several offered or proposed sites who actually counts the number of people passing each site within a given time. Before a highway engineer determines the type of road he will recommend, he counts the number and type of vehicles passing a given point on the road within a given space of time. With this information, he can tell whether to build a sand-clay or a concrete road, a one-way or two-way or four-way highway. Is there not a field for a limited number of trust men to turn trust engineers and to help banks and trust companies to survey the trust possibilities of their trade-areas?

To Prevent Overlapping

SUPPOSE a study of the potential trust business of the area convinces an impartial trust engineer that there is not more than enough trust business to support one trust department. Yet there are already in that area two or three or more, each of them operating at a loss or nominal profit. Or suppose it is a virgin field that two or more rival banks or trust companies are thinking of entering. How can such a situation be met? This is not an academic question. All over the United States there are areas with enough trust business to support one trust department, trying to support three or four and all of them living from hand to mouth.

Two ways of solving the problem of overlapping trust service have been suggested. One is for the banks and trust companies of the area to get together and, basing their action upon the results of a careful study, decide how many trust departments that area will support and decide which of the existing departments shall carry on and which gradually withdraw from the trust field. To offset the advantage to those that remain in the field, the latter should gradually retire from the commercial or savings bank field and leave banking to the others.

Banks Can Join Forces

ANOTHER and, in some ways, a more practicable way is for the banks and trust companies of the area to get together and organize a separate trust company to engage in trust business exclusively. The stock would be held by the participating banks and trust companies. The board of directors would be chosen from their officers and directors. By means of a voting trust, they could assure control of the trust company. Each

(*Continued on page* 170)

Where Small Merchants Borrow

By ROLF NUGENT
Department of Remedial Loans, Russell Sage Foundation, New York City

Variety of Agencies Has Developed to Supply the Demand from Retail Shopkeepers for Credit. These Include Industrial Banks, Axias, Credit Unions, Individuals and Loans by Wholesalers. High Interest Rates Make Such Transactions Profitable.

THE search of small merchants for new sources of credit has developed a secondary banking system of large proportions. This system is in part a non-legal, underground one, but more and more recognized legal agencies are developing to meet the need.

The most common source of credit for the small city merchant without bank credit is an institution known as the axia. The axia is a cooperative credit and savings society, sometimes organized as a business corporation, sometimes as a membership corporation and sometimes merely as a voluntary association. Its name is derived from the Russian "achtzia," which means "shares."

The Family Unit

THE axia originated among Jewish merchants in the cities of eastern Europe as a family loan association. The Jewish family keeps a tribal quality—it includes in a fairly close relationship all family connections by blood and marriage under the leadership of a patriarch. For centuries this family group has been a social and economic unit. The family group absorbed the risk of sickness, death and hard luck of each of its individual members through loans or outright gifts of the more fortunate.

Following the development of the cooperative credit society idea in Europe during the latter part of the nineteenth century, this loan function of the Jewish family gradually came to be formalized. A definite loan fund was established on a basis of shares, a committee appointed to operate the fund, an interest charge established for the use of money, and dividends paid on shares. This transition was a gradual process because it necessitated a break with the orthodox doctrines against taking interest from other Jews for the use of money.

With the formal organization of the fund, the family unit became less important in its capacity of mutual protection. Through inter-marriage, other entire families were brought into the fund and bought shares and borrowed money from it. This accretion from without required more care in lending, so the relative who first became a member of the axia through marriage endorsed the note of any member of his immediate family who borrowed. Endorsement quite naturally became the recognized procedure for establishing security.

The axia is no longer confined to Jews. Italians have taken to the idea quickly. Hungarians and Poles have also formed axias, and there are even a few among Chinese and Japanese. Wherever a foreign community develops and retains its own language and customs, the axia is apt to be found. Few axias are now limited to a single family, but they may have other points of homogeneity. Many among Russian Jews and Italians, for instance, limit membership to families of former residents of the same town in Russia or Italy. The money accumulated is used chiefly for business purpose, but may also finance bringing relatives from Europe, or pay doctor bills for sick members.

An Application for a Loan

THE axia meets once a month in a public meeting room or even in the home of an officer. Its books and records are usually kept in a private home. Occasionally a synagogue is the meeting place and office. While the axia is subject to absolutely no regulation, it is in effect a bank, and as such breaches the banking law. Loans are usurious because more than the legal rate of interest is charged and losses from defenses of usury are frequently heavy.

Some axias are well run, use certified public accountants and are quite sound. Others are confused by ap-

parent high earnings shown by discounting interest in advance, pay huge dividends, and inevitably liquidate at a loss. Defalcations are common and favoritism among the clique in control often leads to uncollectible loans.

Exist by Thousands

NEVERTHELESS, the extent of axia operation is amazing. Thousands are operating in New York, Chicago, Philadelphia and Newark, and I suppose a proportionately large number have been organized in other large cities. In one year, the New York State Banking Department, without special effort, collected names and adresses of more than five hundred in New York City. Most of these are quite small, but some have assets in six figures.

Although the great majority of credit unions are now organized among employee groups and are identified with the personnel activities of employers, many, particularly in New York and Boston, are the direct outgrowth of axias and deal with small business men. Incorporation under credit union enabling acts permits almost the same type of business as that performed by axias, avoids prosecution or forced liquidation for infraction of the banking laws, gives the advantage of state supervision, and prevents the defense of usury. Credit unions in New York City have outstanding loans to small merchants and small manufacturers of approximately $10,000,000.

In spite of many conspicuously successful examples among small-merchant credit unions, the mortality among these "legalized axias" has been high. The difficulty has been the expansion of size and the decrease in homogeneity that followed formal incorporation. While the loan association was small, the membership was compact and loans could be successfully made without a great deal of investigation. But with increased size of credit unions having no definite limitations of membership, the granting of credit became more difficult and required a management technique which few credit unions could find in their ranks.

Problem of Supervision

BANKING supervisory authorities are confronted with the problem of a definite need for cooperative credit facilities among small merchants, an enormous development of illegal loan associations, but a dubious record of credit unions of the axia type. Several experiments are being carried on in New York and Massachusetts to test the advisability of permitting axias to incorporate as credit unions with certain membership restrictions. Several have been chartered with restrictions on the maximum number of members. Others are restricted to a limited geographic section of the city. Any such restriction apparently decreases the mortality rate.

Industrial Banks

WHEN Arthur Morris organized his first bank, his publicity centered around loans to employees. The majority of loans of Morris Plan banks and similar groups are still made to employees. But in increasing degree, their policy is to attract small merchant loans.

There are probably two reasons for this. First, the cost of bank administration has increased rapidly since the industrial banking idea was first promulgated. To maintain profits at the same interest rate has required increasing the size of loans. Only in this way could the clerical cost per dollar loaned be reduced. The elimination of small employee loans with an expanding business volume has required a search for other outlets. With the gradual withdrawal of banks from small merchant loans, the industrial bank has stepped into the breach. Because of their higher interest charges, they have found a profitable field in this business which the bank had to refuse.

Nationally, the industrial banks are close competitors of the axias in volume of small-merchant financing. In most states these companies operate under specific enabling legislation which requires a special charter or license and subjects them to state supervision. They are, therefore, a formal and recognized part of our banking structure.

Individual Lenders

FROM the credit union, from the industrial bank, and even from many axias, the small merchant gets a fairly good deal. This credit is comparatively expensive and he must use it sparingly and judiciously. But it meets his needs. In some communities the small merchant without bank credit is more seriously handicapped. Pennsylvania has neither credit union legislation nor an industrial banking act. Although many axias are operating in Philadelphia, their scope is limited and many small merchants have no credit beyond loans from individuals. A survey of bankrupt grocerymen in that city showed that many were borrowing from lawyers and from business corporations organized for lending money, but not under banking department regulation. Five bankrupts listed the same attorney as a loan creditor and investigations revealed that he carried on a sizable loan business with small merchants. His rates approximated 25 per cent per annum. This charge seemed to be standard among other non-legal lenders financing small merchants.

Occasionally, however, interest rates from private lenders are enormous. Prosecutions of usurious money lenders in New York revealed that small merchants were frequently paying more than 100 per cent per annum for their money. Loans from private lenders at rates approaching 25 per cent apparently have been used advantageously in emergencies by some merchants. Rates exceeding 100 per cent are, of course, unconscionable and destructive.

These are the most common sources of small-merchant credit, but

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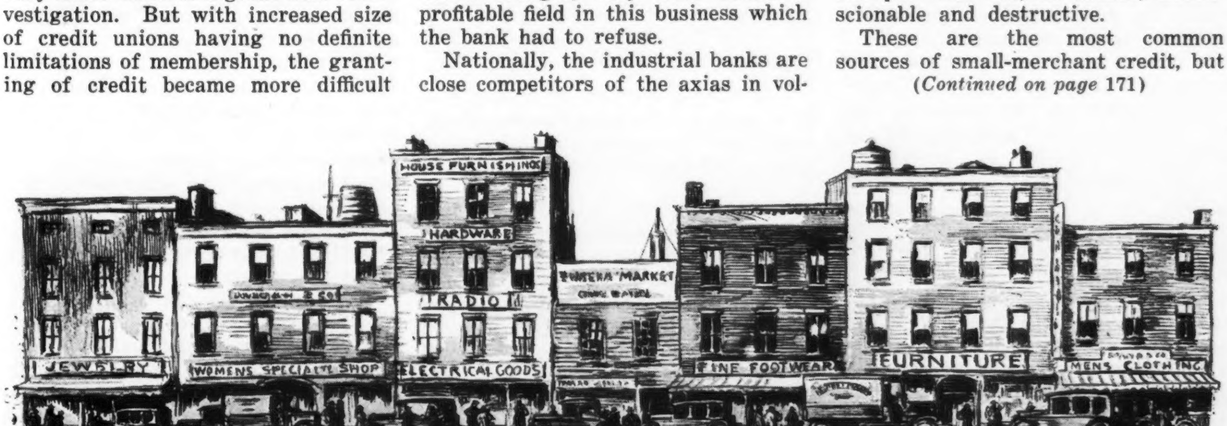


Profits in American Industry

By D. RICHARD YOUNG

Depression Affects Major Industries Differently. Income Accounts Furnish Best Index to Conditions. In Most Prosperous Year, 1929, 40 Per Cent of All Corporations Reported Deficits. Production, Prices and Profits Are Closely Inter-Related.

THE severe decline in business profits that has occurred has disproved some of the theories widely accepted up to two years ago as to the normal rate of growth in earnings and the ability of corporations to maintain their dividends during a period of depression. Some six hundred industrial corporations that have published reports for the half year show combined net profits 52 per cent below the corresponding period of 1930 and nearly 67 per cent below 1929.

Compared with 1921

EVEN allowing for some improvement in business during the fall months, the current year will be the leanest in point of earnings since 1921. In that year, 52 per cent of all American corporations operated at a loss and had aggregate deficits that offset the income, after taxes, of the other 48 per cent by $240,000,000. In 1929, the most prosperous year, over 40 per cent of all active corporations reported no net income.

Earnings in 1930 showed an average decline of about 41 per cent as measured by reports of approximately 2,000 representative companies. The best showing was made by the amusement, bakery, confectionery and beverage, drug, fertilizer, laundry and cleaning, tobacco, electric light, gas and telephone industries, in which the decline in the group totals was less than 10 per cent.

A decline of 10 to 25 per cent was shown by the coal mining, meat packing, miscellaneous food products, pipe line, printing and publishing, railway equipment, real estate, restaurant chains, warehouse and storage companies.

Declines of 25 to 50 per cent were shown by agricultural implement, building materials, chemical, electrical equipment, household goods, chain and department stores, office equipment, paper products, petroleum, shoes, railroads and banking corporations.

From 50 to 100 per cent declines were suffered by the apparel and other textile products, automobile and accessory, aviation, heating and plumbing, iron and steel, machinery, non-ferrous metals, mail order, paint and shipping companies. Net deficits were shown in the cotton mill, silk, wool, lumber, furniture, leather tanning, wholesale trade, tires and Cuban sugar groups, also by fire and casualty insurance companies.

From the accompanying chart may be seen the trend of profits for all American corporations, classified by general divisions, during the past ten years. These are based on the annual Treasury Department reports on statistics of income, and show the net income after deducting taxes and deficits. Although 1928 is the latest year for which final figures are available, a preliminary summary has been issued for 1929 and the 1930 figures have been estimated from an analysis of the published reports of individual corporations.

Profits, Taxes, Deficits

THE Treasury Department statistics have never received the attention they deserve in view of the detailed and valuable information they contain. Two features deserve special mention, namely, the substantial amounts of business profits that are taken in the form of income taxes, and the substantial deficits each year that must be deducted in determining the net profit remaining in the industry as a whole and available for paying dividends and attracting new capital.

Following is a summary, in millions of dollars, of the total income of all American corporations, taxes paid, deficits and balance remaining:

(In Millions of Dollars)

Year	Income	Taxes	Deficits	Balance
1916	$8,766	$172	$657	$7,937
1917	10,730	2,142	630	7,958
1918	8,362	3,159	690	4,513
1919	9,411	2,175	996	6,241
1920	7,903	1,625	2,029	4,248
1921	4,336	702	3,878	D-344
1922	6,964	784	2,194	3,986
1923	8,322	937	2,014	5,371
1924	7,587	882	2,224	4,481
1925	9,584	1,170	1,963	6,451
1926	9,673	1,230	2,169	6,275
1927	8,982	1,131	2,472	5,379
1928	10,618	1,184	2,391	7,042
1929-P	10,261	1,047	2,703	6,511

D—Deficit. P—Preliminary.

Effect of High Taxes

IT will be observed that an increase in taxes has the same effect as a fall in net income, so far as industry is concerned. In the four years of extreme high taxes, 1917-1920, corporate income averaged slightly higher than in 1916, yet the balance after taxes and deficits averaged $2,000,000,000 lower. Every dollar taken in the form of taxes means that much less available for improvement and expansion of plants or for attracting new capital.

It is perhaps not fully appreciated how the political schemes proposed for the appropriation of funds for public works or to aid different industries call directly for the diversion of liquid capital from other industries.

A second feature of the Treasury reports is the number of concerns that operate each year at deficits, the sumtotal of which is truly staggering. It is no idle jest to say that American corporations lose more money each year than the industries in most foreign countries earn. Since 1916, the largest percentage of companies reporting net income was 66 per cent of the total, in 1917; the smallest was 48 per cent, in 1921, and the 14-year average was 58 per cent.

Every year since 1920 there has been an average annual deficit of more than $2,000,000,000 which resulted from the post-war deflation, over-expansion, obsolete methods, intensified competition, mismanagement and other causes, and furnishes some grounds for the term "profitless prosperity" which was sometimes applied to the period.

There is always a certain amount of criticism of large corporations merely because of their size on the part of people who do not consider the corresponding large contributions such organizations make to the national income, wage payments and

material purchases, as well as the service rendered to the public welfare by lowering the cost of production and distribution on the articles of everyday consumption. In the year 1928, the distribution of net income according to the size of companies was as follows:

(In Millions of Dollars)

Number of Companies	Size	Amount
229	$5,000,000 and over	$3,810
1,029	$1,000,000 to $5,000,000	2,120
1,286	$500,000 to $1,000,000	898
2,267	$250,000 to $500,000	794
6,194	$100,000 to $250,000	960
257,778	Under $100,000	2,036
268,783	Total	$10,618

The 229 companies reporting $5,000,000 or more represented only 0.085 per cent in numbers but contributed 35.9 per cent of the total income of all corporations reporting net income.

Taking the two upper groups that reported $1,000,000 or more, numbering 1258 or only 0.555 per cent of the total, their income aggregated $5,930,000,000 or 55.8 per cent of the total.

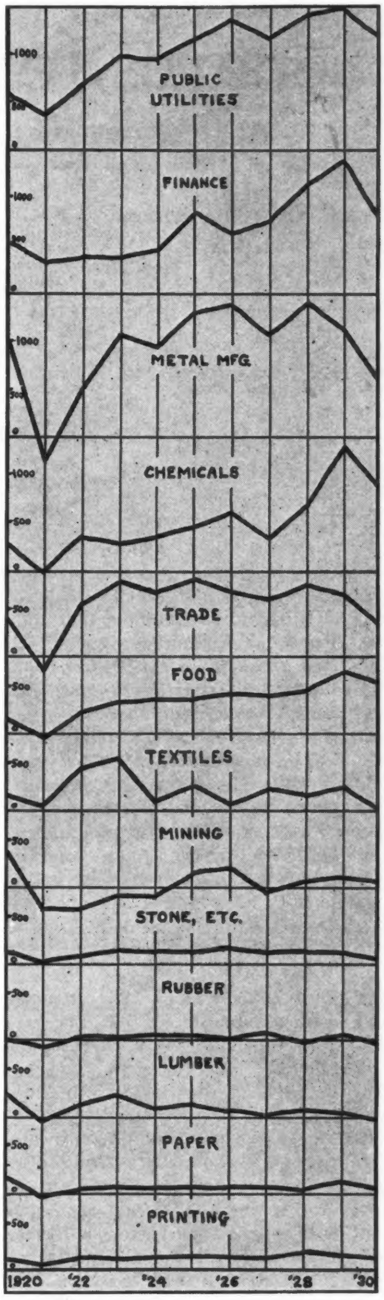
In the lower group, that reported $100,000 or less, there were 257,778 companies or 95.91 per cent of the total, but their combined income was $2,036,000,000 or only 19.2 per cent of the total.

This is of course no argument in favor of unrestricted consolidation and formation of super-corporations, for experience has shown that there is a certain point in size beyond which efficiency tends to decrease instead of increase. Not only is it against the public interest to allow the largest organizations in an industry to consolidate, but instances are not lacking where such a move, when permitted, has had a disastrous effect upon the industry and upon the companies themselves.

There are now twenty-eight American corporations having in excess of $1,000,000,000 in resources each; ten years ago there were less than half this number.

Where Mergers Might Help

AN examination of conditions within the industries (including banking) would seem to indicate that instead of further mergers among the industrial giants, a better balanced and more healthy position would be brought about through the amalgamation of groups of small units into sizable organizations. In this way the weak operators, which cause havoc through price-cutting, bankruptcies, and in other ways, would be eliminated, and the consolidation would obtain the advantages of large-scale production, purchasing, advertising, capitalization and management.



Net Income After Taxes of All American Corporations by Major Industrial Groups (in Millions of Dollars)

In any analysis of business profits it is necessary to bear constantly in mind the basic formula for profits. Volume of production times profit per unit, less expenses, equals net profits.

In the event of changes in the price level, there will temporarily be either a narrowing or widening of the profit margin, also changes in valuation of inventories which, if the price movement be violent, may either wipe out or multiply the operating profit, depending on whether the move is up or down.

Studies that are being made but are as yet incomplete, on the relation between business activity and profits, would seem to indicate that when activity ranges between 80 and 110 per cent of theoretical normal the correlation with profits is practically a straight line.

When activity rises above 110 per cent, profits tend to soar at a much faster rate, while a decline of activity below 80 per cent brings a much faster drop in profits. This is true because of the relatively fixed overhead and other expenses and their effect in being distributed over greater or smaller number of units.

A fall in the price level is a handicap to profits for still another reason, in that the same physical volume of business and the same percentage profit margin, even if it could be maintained, would result in a smaller dollar value of profits.

For example, in the second quarter of 1931, the Bureau of Labor index of wholesale prices of finished goods averaged 75.4, on a 1926 base, compared with 90.6 in the second quarter of 1930. Therefore, even if volume and profits margin had been the same both years, the 1931 profits would be nearly 17 per cent lower. Expressed another way, to obtain the same profit, it would have been necessary to sell 20 per cent more in physical volume of goods—not an easy task in a period of depression!

Scrutiny of Accounts

A WORD of caution as to the scrutiny of income statements might be given, inasmuch as there are some bankers who do not insist on getting statements that are audited by accountants known to be reputable, or fail to secure the operating details and other information needed to supplement the balance sheet.

A statement that is not audited nowdays is hardly worth analyzing, inasmuch as every concern of any size employs outside auditors to make a periodical check of its books, provide certified statements for its banks, commercial paper brokers, mercantile agencies and stockholders, uncover any irregularities or shortages, prepare tax returns, keep the accounting system up-to-date and submit cost figures that are a valuable aid to the management.

A bright bookkeeper could in one evening fill in one of the bank's

(Continued on page 184)

Canada Prepares for Revival

By C. M. SHORT
The Canadian Bank of Commerce

Dominion Has Come Through Depression with Economic Structure Intact. Industrial Output for 1930 and First Part of 1931 Continues at About Same Level as 1927. Special Factors Have Retarded Wheat Exports. New Metallurgical Industry Thrives.

CANADA has displayed strong resistance to the forces of world economic disorder. Mere assertion, of course, is not proof, but the truth of this resistance is supported by facts concerning Canadian business in relation to world business.

A few words as to the financial stake of Americans in Canada. At the close of 1930 it was estimated at nearly $4,000,000,000, representing about 25 per cent of all American foreign investments and the United States' largest investment in any foreign country. The source of this information is the recent report of the United States Department of Commerce, "The Balance of International Payments of the United States in 1930." The estimates of American investments abroad shown therein are exclusive of certain items, such as short-term capital, and the total is, therefore, less than estimated in other quarters. In respect of that part of the discussion bearing upon world business, we can gain no adequate knowledge of Canadian economy without a consideration of world affairs; there are few countries so dependent on foreign markets as Canada, which looks to other nations to absorb 75 per cent of her wheat and forest products, including paper, 60 per cent of her metals and 70 per cent of her fish.

Sound

THE banks and investing public of the United States are interested in the growth of Canada because the Dominion is a friendly neighbor and because $4,000,000,000 worth of Canadian securities are held in the United States. This article shows that Canada met the difficult problems of 1930 and 1931 in a manner which justifies faith in her future. As the writer states: "This economic storm has left no great mass of wreckage in Canada."

Comparisons with 1929

THE depression in Canada can be traced back to the summer of 1929, but it was mild until August, 1930, when, with a marked turn for the worse in world business, it became one of major character. In other words, the Canadian business record for the first part of the year was better than that for the latter, which is one of several qualifying features which must be taken into account. It would of course be impossible to omit from this analysis the year 1929, but it is included subject to the fact that it is now recognized as a "boom" year and for that reason unsatisfactory for comparison. The results of 1930, and of 1931 to date, may seem disappointing, but they appear exaggerated when compared with those of 1929.

Bearing in mind that Canadian business, including foreign trade, is but a part of world business, we may note a decline from 1929 to 1930 in the physical volume of Canadian exports and imports combined of 16 per cent (although imports exceeded those of 1929), while international trade contracted by about 12 per cent. In view of the acute competition in world markets there is some comfort in the fact that the reduction in Canada's exports was about in line with a decline in the export trade of the group of countries which produce raw materials largely in excess of their own requirements and that it was not so great as in the case of certain members of this group. The volume of international trade has continued to fall in the first part of 1931, and generally the same trend is to be found in the foreign trade of Canada; in some months there has been a seasonal expansion but not of such extent as in former years. The last favorable "visible" balance was in 1929, but the unfavorable balance is now running at a smaller rate than in 1930, when it was $103,000,000. As a sidelight on Canadian external trade, it is worthy of observation that, while Canada is usually regarded as engaged chiefly in the export of raw materials, nearly 50 per cent of her manufactures are sold in outside markets, and that among the most important "invisible" items in her foreign balance sheet is the total expenditure of tourists, amounting to $275,000,000 in 1930, about 10 per cent less than in 1929, but almost sufficient to meet the annual interest payments due on the external debt.

Crops Determine Exports

CANADIAN exports vary according to the grain crops in the prairie provinces and foreign market conditions for these products. In 1927 and 1928 market conditions were favorable; in the former year good crops were harvested, and in 1928 the yield was abnormally heavy. A marked change took place in 1929, competition being much keener and the Canadian crops of less than average volume. In 1930 there was an average harvest, but international competition was greatly intensified. But despite all the handicaps of 1929 and 1930 Canada continued to be the world's largest wheat exporter, with 43 per cent of world trade in the "wheat year" ending July 31, 1929, 30 per cent in the following twelve-month period, and 34 per cent for the elapsed part of the current "wheat year," August 1, 1930, to June 30, 1931. The weight of the world's great wheat supplies since 1927, successive increases in grain tariffs and other highly restrictive measures by several European countries, the reappearance of Russia as a grain exporter, a mistaken view of market conditions in 1929—all these, however, have retarded the sale of Canadian wheat so that record carryovers have been held at the end of each "wheat year" since

Chippewa Hydroelectric Plant, Queenstown, Ontario

1929, and another is in prospect for 1931, although the effect of the latter is offset by the poor outlook for this year's crop.

The output of Canadian industries as a whole in 1930 and for the first half of 1931 was on the same level as that of 1927, while from reliable reports it seems that world manufacture has fallen to the level of 1925. The comparatively good record in Canada was not, however, uniform throughout, for there has been a sharp drop in two important branches, automobiles and farm implements, while fairly even operations have been registered in certain textiles and in some new industries, such as radio. A decline in the production of newsprint, though comparatively small, is disappointing, but it is less than in most other major industries; the rate of decrease, however, was greater than in world paper manufacture.

Large Building Projects

AN outstanding feature of Canadian business during the present period of depression is that construction has not declined as precipitately as was expected a year ago. The first marked decline was not until the late summer of 1930; since then the volume of construction work, allowing for a reduction in costs, has been on about the same level as that of 1927, which was regarded as a good building year. In explanation, however, it is necessary to state that the construction records of the period under review have included a number of projects, chiefly of hydro-electric development, road-building and other public works, which were under way either before depression set in or prior to its acute stage, as well as some undertaken in relief of unemployment. In regard to hydroelectric development, a noteworthy element in Canadian economic life during the past decade, there was added in 1930 about 400,000 horsepower and new power plants now under construction will increase the total available "white coal" to 6,500,000 horsepower in 1931, with a further 2,500,000 horsepower in active prospect.

The history of mining is one of mixed results, although the balance is on the favorable side. Coal mining has slackened until at this date production is at least 25 per cent below normal. The companies mining asbestos and gypsum, two important non-metallic minerals, felt the contraction in building and industrial operations throughout this continent and the output has declined sharply. There was a large increase in petroleum last year which was mainly the result of successful development of a comparatively small, but unique, field in the province of Alberta; the product is naphtha which before extraction has undergone a form of natural refinement. The most favorable achievements in mining are in nonferrous base metals and in gold. World production of the former elements has fallen by about 12 per cent, yet, notwithstanding the closing of practically all small properties, Canadian production increased by 11 per cent in 1930 and in the first part of 1931 has been nearly equal to that in the corresponding period of last year, a rise in the output of copper, lead and zinc more than offsetting a decline in nickel. The gold-mining industry has continued, both in 1930 and in the current year, to establish new production records, and it is confidently expected by highly qualified authori-

(*Continued on page* 183)

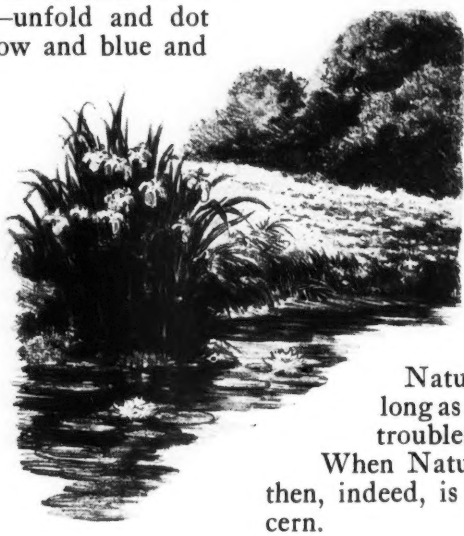
Aerial View of Ottawa, Looking West

A Bouquet in the Bank

THE ancient torch bearers are constantly held up to us as an example of how we should carry on, but for a more inspiring example turn to the flowers.

The snow is not gone in the woodlands before the first forest flowers—a venturing vanguard—unfold and dot the ground with yellow and blue and red.

Before the first comers run their course, others have caught up the banner of beauty and carried it forward to be passed on again and again to other varieties, species and kinds. On through the weeks from early spring without a break, a gap, or a lap, goes the procession quietly, serenely,—on through late spring, early summer, mid-summer, autumn—coming at last to a crescendo of color in the fall flowers, hardy and long-lived as though prepared to make a long run.



There is no place where the flowers will not carry on — from swamp to mountain peak—from the desert to the Arctics where the snow flower blooms amid the ice!

Why, then, this constant going back to the so-called torch bearers for a lesson in how to carry on, when we have it here and now everywhere, splendidly applicable to everyone's life and everyone's business and remembering the extent of the florists' business in the United States, (careful estimates in the trade rate it at $100,000,000) commercial enough to suit the most practical of minds!

Let the torch bearers and their ilk run on through the musty tomes of ancient history. We have more and better inspiration at our very doors day by day with no question as to its authenticity, reality or effectiveness — a good thing to think about in these hectic times, a fair subject for contemplation as a relief from the cares of business that lingers or business that has flown!

Nature carries on, and as long as that is true, some of our troubles are only skin deep.

When Nature ceases to carry on, then, indeed, is there reason for concern.

"NEITHER shall they say lo here, and lo there, for behold, the Kingdom of God is within you," says the Good Book. And when men shall say, "Lo here, look at the ancients!" follow not after them for they lead but to the antique shops!

Nature with its banners of blue and gold, scarlet, amber, orange and every conceivable color and shade and mixture shows the way!

A bunch of flowers on the bank clerk's desk is a good sign! It suggests a worker with a well-balanced mind!

James E. Clark

America's Gold Business

By HERBERT M. BRATTER

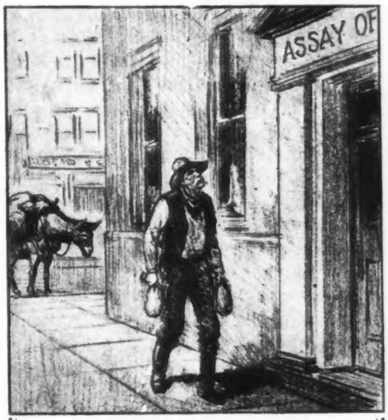
Rules Governing Purchase of Bullion and the Work of Mints and Assay Offices Furnish Demonstration of the Gold Standard in Operation Without Restrictions or Conditions. Treasury Required to Buy All Gold Offered at $20.67 Per Ounce.

IT is well known that gold has its price, whether in India and China, or in England. In the latter country, despite the fact that the pound sterling is stabilized in relation to gold, the price of gold expressed in sterling at times rises above "parity." In the United States, however, gold has only one "price." This is $20.67 per ounce, at which rate the law requires the Treasury to purchase all the gold offered it. One may sell his gold to the Government through the mints or assay offices, or through the Federal reserve banks, in unlimited quantities. One may also purchase gold here in unlimited quantities, since our dollar is in practice freely exchangeable into gold coin or bars, at the holder's option, and there is no restriction on the metal's exportation. Thus, we possess the gold standard with no strings tied to it—an unlimited market for gold, "free coinage," free exportation. Moreover, in this country, gold is unlimited legal tender.

Gold for Gold

WHEN we speak of the price of gold we mean its price, stated in money. But there is something inexact in this terminology here, where the dollar is legally defined as gold. Stating the price of gold in the United States is quoting the price of the metal in terms of itself; for one dollar—states the law—is 25.8 grains of gold, 0.900 fine. Therefore, although in selling gold to Uncle Sam we receive "dollars" in exchange, actually we are receiving gold dollars or their surrogates. That is, we receive gold for gold. In payment for gold in any form sold to the Government we receive coined gold, or something freely convertible into coined gold.

Theoretically, the seller is simply a depositor, and so he is spoken of in mint parlance. He merely deposits his gold for melting, assaying, refining and/or coining. In practice, he is quite content to accept an equal amount of other gold, and usually does not get back, as bars or coins, the very gold he delivers. The mints have certain leeway in meeting depositors' desires. The latter, in turn, must observe certain requirements as to fineness, weight and metallic content of the bullion deposited. The costs of melting, refining and the like are charged to the depositor, except in the case of coinage, which is gratuitous (without charge) as well as free (unlimited as to amount). The costs borne by the depositor are those necessary to put his gold into the right fineness for use by the mint in coining; where he asks for finer gold than that, an extra charge is made. The charges vary according to the work involved. Worn domestic gold coin, for example, which is bought by weight, or foreign coin, both possess known fineness and require less treatment than gold bullion, which usually contains some other metals; also less treatment than commercial bars, which vary in fineness and composition. For such gold, handling charges are higher.



Dust

THROUGH ten institutions scattered over the country the Federal Treasury assays, refines and coins gold practically at cost. Very little metal is lost in the process. Even the water used by assay office workmen and the fumes from the crucibles are carefully "searched" for stray particles of gold dust. Sweepings from the floors are sold to outside bidders who recover enough gold to make the business profitable.

Mints and Assay Offices

THE United States maintains ten institutions for purchase or assaying of gold (and other metals). There are three coinage mints—Philadelphia, Denver, and San Francisco; the important New York assay office; mints at New Orleans and Carson City, which do not now coin, but act as assay offices; and assay offices at Boise, Helena, Seattle, and Salt Lake City. The last six of these institutions are really bullion-purchasing agencies for the others, and at the same time serve the public by assaying ore and bullion. At the New York, Denver, and San Francisco institutions, electrolytic refineries are maintained, the one in the New York assay office being temporarily closed until the new building now under construction is opened. The New York assay office is the largest in the country, and can handle $15,000,000 of gold in a day.

When the Government buys gold it does not pay cash in full. For unparted bullion it usually pays 90 per cent of the estimated value upon deposit, and the remainder, minus the above-mentioned charges, after it has determined the exact value of the deposit. In the case of coins (excepting Russian bar gold or coins, which will be bought only if accompanied by satisfactory evidence of title) the Government may pay as much as 98 per cent at once, and the rest upon completion of the assay which, where coins are involved, is a slow process and may take weeks. Small shipments are usually expedited, payment frequently being made in full the day of delivery.

Upon depositing gold, one may obtain payment in gold bars, gold coin,

gold certificates, or other lawful money, as he may desire. He may have payment made partly in one form and partly in others. But, if he insists on gold coin, he must take the denominations offered by the mint or assay office concerned. In fact, the Treasury may legally give him gold certificates, although he asks for gold coin. Naturally, with relatively little gold coin in demand for circulation purposes, most of the mints' and assay offices' business is in gold bars. Banks and others requiring gold for international shipments naturally find the bars easier and cheaper to handle.

Legal Stipulation

THE code of laws of the United States provides, regarding gold and silver bars, as follows:

"At the option of the owner gold or silver may be cast into bars of fine metal, or of standard fineness, or unparted, as he may prefer, with a stamp upon the same designating the weight and fineness, and with such devices impressed thereon as may be deemed expedient to prevent fraudulent imitation, and no such bars shall be issued of less weight than five ounces."

This establishes a mininum weight for the bars. The mint and assay office charges are set forth in a table of charges. This is too long for full quotation here, but the information in circular form can be obtained from any mint or assay office, or from the Treasury. The contents of the circular are briefly as follows:

1. Melting charge. This is not assessed on uncurrent U. S. gold coin, on stamped U. S. mint bars, on silver bullion free from gold and 0.998 fine or better, when a satisfactory assay can be obtained without melting.

2. Toughening charge.

3. Withdrawal and rejection of deposits. Deposits may be withdrawn by the depositor any time before payment is tendered, and even after that, at the option of the officer in charge, subject to payment of charges for work already done. "Rejected deposits" (all those containing 0.800 or more of base metal) are also subject to charges for work done up to time of rejection.

4. Parting and refining charge. Rates are per gross ounce or fraction, and range from one cent to eight and one-half cents, where the base content is from 0.050 to 0.799¾. Where the base content is less, i. e., gold content is 0.950 to 0.991¾ the charge is two cents, and for 0.992 or better there is no charge for parting and refining. Among the other details of this section is one reading "gold coin containing eight-thousandths or over of silver acquires the status of bullion and is subject to appropriate charge for refining."

5. Alloy charges.

6. Bar charges. These charges are made on gold bars issued in exchange for gold bullion, and on gold bars sold. When payment in gold bars is requested without specification as to size no bar charge is imposed, except that where no parting and refining charge has been made, a bar charge of $0.07 per $100 value of bars issued will be made; and with the further exception that, when fineness of .9999 is requested, a charge of $0.09 per $100 value of bars issued is made.

When special size bars are requested the bar charges for gold bars vary, according to value, from six to eight cents. No charge is imposed on any gold bars of a fineness below 0.999 when particular sizes are not requested.

7. Assays of gold or silver bullion or jewelry free from platinum metals. (For gold, $3.00).

8. Assays of plated and filled goods and white gold free from platinum group metals. (For gold, $4.00).

9. Assays of ores. (For gold, $1.00).

10. Assaying and stamping charges.

11. Assays of platinum group metals.

Remelting and Refining

BAR gold, scrap gold, foreign gold coins, and the like, as also, under certain conditions, abraded American gold coins, are, when sold to the Government, melted and refined. Even bars bearing the stamp of a United States mint or assay office are so treated, unless such bars have obviously not been mutilated and their weight agrees with the stamp they bear. Since bars issued here constantly are sent abroad for arbitrage purposes and are frequently returned, later on, unchanged and even unpacked, this provision is of value to bankers. When such United States mint bars have to be remelted, the depositor pays a melting charge, but no alloy charge.

In addition to its weight in troy ounces, each gold bar manufactured by our mints or assay offices bears stamped on it the following: the fineness in ten-thousandths, the value in dollars and cents, the "melt" number, the bar's individual serial number, the year of manufacture, and the seal of the manufacturing institution.

In the table of charges mentioned above, the sixth item, bar charges, may require some explanation. The mints and assay offices, especially the New York and Philadelphia institutions, are called upon to supply the trade with gold for industrial uses. Such gold must frequently be of a special fineness. Moreover, the bar of international banking use is too large for handling in ordinary jewelry manufacture. Therefore, the Government manufactures special, small-size bars of various values and various finenesses, making a small extra charge therefor. Whereas the favorite size of bar for export purposes is worth $8,000 the small bars called "mint exchange bars," or "stamped mint bars," vary in size from approximately five to 300 ounces ($103 to $6,201). The sizes most in demand are $200 to $500. These bars, it should be noted, may not be obtained of a fineness less than 0.900 nor in amounts of less than $5,000 at a time. An exception is made when gold is submitted for assay; then the minimum is $100, and the depositor may elect payment in the form of a gold bar, gold coin, or any kind of legal-tender money. But such manner of payment to the depositor applies only to the gold content of the deposit. Payment for the silver content may not be demanded in gold. A further restriction on such deposits for assay is that the ore submitted contain not more than 0.800 of base metal. A non-depositor purchasing gold in bars must pay for it in gold coin or gold certificates.

When the depositor hands his gold bullion or coin across the counter, it must be weighed at once, preferably in the depositor's presence. A receipt is then issued describing the bullion, and its weight. Should the officials of the receiving institution deem it desirable to melt and refine the bullion, the weight after such operations is considered its true weight.

Method of Payment

THE receipt states the date on which payment will be due, and the manner of payment—by check, in bars, or by cash—as elected by the depositor, but the receipt does not state the amount of the payment. As soon as the bullion has passed through the assay and melting departments, a further memorandum is prepared for the depositor, showing the weight in ounces and hundredths of ounces before and after melting, the fineness and value of both the gold and silver content, the amount of the charges and the net value. As stated, payment in gold bars may be demanded only in the amount of the gold content of the deposit, nothing more. The Government reserves the right to make payment for that portion in the nearest convenient amount of gold bars or gold coins.

(Continued on page 179)

The Duty of Corporate Trustees

By THOMAS B. PATON
General Counsel, American Bankers Association

Faithfulness, Diligence and Prudence Required. Trustee Not Responsible for Error of Judgment in Retention of Testator's Securities in Falling Market. A Distinction Exists Between Purchases and Retention of Stocks Received Under a Will.

TRUST officials in New York and elsewhere will welcome a recent decision of the New York Court of Appeals (Estate of Frederick H. Clark, deceased, July 15, 1931), which reverses an order of the Appellate Division upholding a decree of the Surrogate of Westchester County wherein a trust company, acting as trustee of an estate under a will, was surcharged for losses sustained through the decline in value of certain sugar stocks which had been held for seven years, although the will expressly authorized that the securities be continued as investments.

Previous Discussion

IN an article in the August, 1930, JOURNAL, under the caption, "An Object Lesson in Trust Management," we discussed the decision at length and indicated the serious nature of the announced rule of duty of corporate trustees in the matter of retaining or disposing of securities, especially those of a speculative nature, left by a testator with discretionary power. In a second article published in the JOURNAL for July of this year under the title, "Judicial Guidance in Trust Work," we further discussed, in the light of this and other decisions, the desirability of an established procedure under which a trustee would have the right to ask and the court the power to give advice or guidance as to the wisdom of retaining or selling securities held in a trust capacity when circumstances arose requiring the exercise of business judgment. The purpose of this would be to obtain judicial approval, in advance, of a contemplated course of procedure, either to retain or sell.

The decision now handed down by the New York Court of Appeals will have the effect of clearing the atmosphere with respect to the responsibility of corporate trustees in cases of this kind. The court distinguishes between purchases of speculative stocks by a trustee and retention of such stocks awaiting the arrival of a favorable opportunity to sell; where a loss results, the trustee in the one case would be guilty of negligence, while in the other it would be guilty, at most, of an error of judgment for which it would not be responsible.

In view of the importance of this decision in which all the Justices concurred, we give the full text of the opinion of the court, omitting a preliminary statement of facts. The Court of Appeals said:

"It has been stated that 'there appertains to the relation of trustee and cestui que trust, a duty to be faithful, to be diligent, to be prudent in an administration entrusted to the former, in confidence in his fidelity, diligence and prudence'; that 'the just and true rule is that the trustee is bound to employ such diligence and such prudence in the care and management, as in general, prudent men of discretion and intelligence in such matters, employ in their own like affairs'. (King v. Talbot, 40 N. Y. 76, 84, 85.) The statement has been frequently approved. (In the matter of Weston, 91 N. Y. 502, 511; Costello v. Costello, 209 N. Y. 252, 261.)

Not Bound to Forecast Future

"IN determining whether the acts of a trustee have been prudent, within the meaning of the rule, we must 'look at the facts as they exist at the time of their occurrence, not aided or enlightened by those which subsequently take place' (per Peckham, J., in Purdy v. Lynch, 145 N. Y. 462, 475); for it is an obvious truth that 'a wisdom developed after an event and having it and its consequences as a source is a standard no man should be judged by' (per Collin, J., in Costello v. Costello, supra, p. 262); and it is impossible to say that trustees are wanting in sound discretion 'simply because their judgment turned out wrong' (per Holmes, J., in Green v. Crapo, 181 Mass. 55).

"We must distinguish also between the acts of trustees in making investment of trust funds, and their acts in making, or failing to make, prompt disposition of securities received from the hands of the creator of the trust. (In the matter of Weston, supra; Jones v. Jones, 2 N. Y. Supp. 844; matter of Mercantile Trust, 156 App. Div. 224; matter of Chapman [1896], 2 Ch. 763.) Self-evidently the purchase of a speculative stock by a trustee is one thing; the retention of such a stock awaiting the arrival of a favorable opportunity to sell, is quite another; the former would constitute negligence; the latter, regarded prospectively, might be prudent, although in retrospect it might seem to have been a grievous error. Furthermore, the distinction between negligence and mere error of judgment must be borne in mind. 'Trustees acting honestly, with ordinary prudence and within the limits of their trust, are not liable for mere errors of judgment' (per Lindley, J., in matter of Chapman, supra, at p. 776); a trustee should not be held liable 'for unfortunate results which he could not be expected to foresee and was powerless to prevent' (Ormiston v. Olcott, 84 N. Y. 339, at p. 347).

Authorized Retention of Securities

"THE testator empowered his executors and trustees 'to continue all the investment of money in the securities made by me and which shall come into their possession and control at my decease, without any personal liability for so doing.' The very fact that the trustees, as well as the executors, were so authorized, indicates that the testator contemplated that the securities left by him might be held over an extended period. Although, at the time of the executors' accounting, the sugar stocks had been retained by the executors for three years, the surrogate absolved them of blame for not making disposal thereof, and directed that the stocks be turned over in kind to the trustee of the various trusts created by the will. The surrogate then expressed his opinion as to the wishes of the testator in regard to the stocks that 'it was his desire that they should be kept at all hazards.' If such were his desire, equally was it his wish that they should be kept 'without any personal liability for so doing'. The testator had an absolute right to provide that his trustee should not be liable for losses accruing from the retention of the securities, although it may have been imprudent so to retain them. (Crabb v. Young, 92 N. Y. 56, 65.) In that case the testator had provided that his trustees should not be liable for losses except those arising 'from their own wilful default, misconduct or neglect'. The court said: 'It is quite clear that they cannot be held liable to replace the moneys lost through even an improvident or careless investment, unless they have acted wilfully and have intentionally disregarded the rules which control and regulate the action of prudent and careful men in conducting their own business affairs'. Our will does not go quite so far as the will quoted, but at least there must be evidence of lack of reasonable care.

(*Continued on page* 185)

The Gap in Farm Loan Agencies

By NORMAN J. WALL
Senior Agricultural Economist, Department of Agriculture, Washington, D. C.

Organization of Agricultural Credit Corporations Provides Needed Supplement to Existing Facilities. Country Banks Benefit Through Corporation's Operating Profits and Also By Being Relieved From Many of Their Seasonal Burdens.

OF what value is an agricultural credit corporation to a bank? A great many bankers in agricultural communities are considering the possibility of supplementing local credit resources by rediscounting paper of such a corporation with the Federal intermediate credit bank.

As a result of inadequate credit facilities, renewed interest is being evidenced in the provisions of the Agricultural Credits Act of 1923. This act which established the Federal intermediate credit bank system provided a new channel whereby agricultural communities, through the agency of agricultural credit corporations or livestock loan companies, can tap the resources of the central money markets for the purpose of making production and livestock loans. During the year 1930 agricultural communities supplemented their local credit facilities by obtaining funds in the amount of $109,000,000 from this source.

Two Developments

IN recent months, increased interest has been shown in the credit facilities of the Federal intermediate credit banks, as the result of two developments: (a) a Congressional appropriation providing funds to assist in the capitalization of agricultural credit corporations, livestock loan companies, and similar organizations; (b) the action of the Federal Farm Loan Board in permitting agencies which rediscount with these banks to charge borrowers a maximum rate of 3 per cent above the rediscount rate.

As a result of establishing the loan fund referred to above, the Department of Agriculture has lent approximately $1,325,000 to stockholders of agricultural credit corporations and livestock loan companies located in twenty states. The accompanying table shows the amount of such loans, by states, together with the number of individual loans and the number of corporations whose capital structure has been augmented with Federal loans.

This loan fund is available only in those states, or portions thereof, which are included in the officially designated drought area. Loans are granted to individuals in an amount not to exceed 70 per cent of the par value of the stock submitted as collateral and are available for three purposes: (a) to assist in organizing such corporations; (b) to increase their capital stock; (c) to replace an impairment in their capital structure.

Perhaps, the first question that the average country banker will raise is this: "Can I make a satisfactory profit by setting up an agricultural credit corporation to discount the notes of farmers in my community?" Prior to the action of the Federal Farm Loan Board in increasing the maximum rate which could be charged the borrower, it was clear that the probable profit from the direct operation of such an organization could give only a meager return on the capital invested. This was due to the fact that the interest rate which such rediscounting agencies could charge borrowers was strictly limited by the regulations of the Federal Farm Loan Board to a maximum of 2 per cent above the rediscount rate of the Federal intermediate credit banks ($2\frac{1}{2}$ per cent on livestock loans). At the present time borrowers can be charged an interest rate which allows the corporation or company a spread of 3 per cent above the rate charged by the Federal intermediate credit banks. Thus, if the rediscount rate of the Federal intermediate credit banks is 4 per cent, the maximum rate of interest which can be charged on loans to farmers is 7 per cent.

A Hypothetical Case

THE increased earning possibilities of a credit corporation under the new ruling can be indicated more clearly, perhaps, by a hypothetical illustration. If it is assumed that a local agricultural credit corporation is organized with a $25,000 capital and that the Federal intermediate credit bank will allow it to rediscount notes in an amount of only five times the capital, the net operating income would be $3,750. The funds representing the capital stock are usually invested in approved bonds and at least a part thereof must be deposited with the Federal intermediate credit bank as collateral security to the loans which are rediscounted by the agricultural credit corporation. Assuming a yield of $4\frac{1}{2}$ per cent upon these bonds, there would be an additional income of $1,125. The total income of the corporation, therefore, would be $4,875. If the corporation is permitted a line of rediscounts equal to seven times its capital, its earnings may, of course, be 30 per cent larger than the sum just given.

Under the old ruling, the maximum income under these conditions would have been $3,625 and, for corporations loaning on livestock security, $4,250. This gross income is based upon the assumption that the corporation would have loans outstanding during the entire year in a volume averaging five times its paid-in capital. The seasonal demand for crop production loans would, of course, make it difficult to obtain this average ratio throughout the entire year.

Out of the earnings mentioned above it would be necessary to pay office expenses, salaries of the management, and other necessary expenditures. Many corporations make a practice of charging a nominal fee for making out loan applications and

stipulate that the borrower must pay the necessary legal charges incident to the recording of chattel and crop mortgages, acknowledgments, and other items. When corporations experienced negligible losses on loans and when overhead expenses were kept at a reasonable minimum, it was possible to obtain a fairly satisfactory net return on the capital invested, with a profit margin as low as 2 or 2½ per cent. The problem of operating such a corporation without some loss on loans, however, has always been a difficult one. With the margin of profit on rediscounting increased to 3 per cent, it should be possible to take care of nominal losses and still obtain a satisfactory return upon the capital investment.

From this it is clear that an independent agricultural credit corporation or loan company which must pay a salary to a manager who devotes his full time to the organization cannot expect to make a substantial profit on the capital investment, unless a considerable volume of loans is obtained. It is only when a small loan organization is affiliated with a bank, cooperative organization, or operated as an adjunct to a private business concern that a satisfactory rate of return can be obtained upon the capital investment.

Agricultural Credits Division

Loans Closed as of August 20, 1931

State	No. of Individual Loans	No. of Corporations Benefited	Amount Loaned
Alabama	50	3	$55,555.83
Arkansas	64	3	65,500.00
Georgia	257	1	42,999.99
Illinois	3	1	12,000.00
Indiana	12	1	11,000.00
Louisiana	23	1	28,150.00
Maryland	6	1	17,500.00
Mississippi	10	1	8,500.00
Missouri	29	2	42,500.00
Montana	7	3	65,000.00
New Mexico	15	1	53,000.00
North Carolina	2	1	12,500.00
North Dakota	28	2	31,330.00
Oklahoma	8	2	30,000.00
Oregon	74	4	203,425.00
South Carolina	68	4	45,930.00
South Dakota	7	2	26,500.00
Tennessee	7	3	67,500.00
Texas	60	8	315,550.00
Washington	54	2	113,000.00
Wyoming	4	2	80,000.00
	788	48	$1,327,440.82

Aside From Earnings

HOWEVER, the banker who bases his decision as to whether a credit corporation in his community would be a wise investment solely on the possibilities of earnings on such corporation, has seen only a small part of the problem. The profitableness of such a corporation to an individual community cannot alone be judged by seeking an answer to the question, "What will be the earnings of such a corporation?"

The problem is more comprehensive and the country banker should rather ask how the position of his bank will be strengthened and how the earnings of his bank will be affected by the operation of a credit corporation in the community. The supplementing of local credit facilities through the operation of a well managed credit corporation will necessarily have an influence upon the position of country banks. It will be worth while, therefore, to analyze further this phase of the problem.

It is necessary to recognize that the establishment of credit corporations as a supplement to local facilities is not equally profitable in all areas. In those regions where local banks are supplied with a volume of funds which is in excess of the amount necessary to take care of local demand at all times during the year, it is quite clear that the organization of such a credit corporation would not be of particular advantage to that community. The only exception to this statement would be represented by those communities where local banks are unwilling to extend the necessary credit required in financing a sound agricultural program.

Where Needed

IN many communities, however, local banks are not able to take care of the full demand for credit on the part of their agricultural customers. Some communities are able to take care of all such requirements except at certain seasonal periods during the year. In both cases, the supplemental credit facilities available through a credit corporation can materially improve the credit position of such areas.

In communities where the agricultural income is concentrated primarily within a short period of each year, the seasonal character of the loan demand and the seasonal movement of customers' deposits present certain problems in operating a country bank which deserve consideration. In a one-crop region, in particular, the chief income of the community is received at a single period during the year, at which time deposits increase rapidly and the local bank is supplied with a plethora of outside funds which it utilizes in building up its bankers' balances, investment in commercial paper, call loans and bond holdings. Such outside investments carry a relatively low rate of interest compared to that which can be obtained upon local loans. It is necessary, however, for the local bank to keep its assets invested in these readily available assets in order to meet the demands which occur during the subsequent crop production season as customers disburse these funds outside of the community in payment of fertilizer, feed, machinery, and living expenses.

Relieves Burden on Banks

IF a credit corporation is in operation in such a community, and the seasonal production loans financed through it, funds will be brought into the community at a time when the flow of funds is ordinarily away from the community. It is possible, therefore, for the local bank to keep a larger proportion of its average deposits invested in local loans at a higher rate of interest. It is not necessary to keep as large a volume of secondary reserves following the marketing season in order to meet the subsequent demand during the next crop production season when customer deposits usually decrease.

The flow of funds into the community arising through the proceeds of credit corporation loans tends to equalize the seasonal inflow and outflow of funds which are credited and debited upon the books of the country bank. The fact that the credit corporation by itself does not yield a high return upon its capital investment, consequently, tells only half of the story. In addition to the earning of such corporation, there is an increased earning power accruing to the country bank as the result of the equalization in the inflow and outflow of funds referred to above. A more profitable loan and investment policy can be adopted.

It should be clearly borne in mind that the purpose of organizing credit corporations is not merely to supply additional credit to agricultural communities, but rather to supply credit which can be employed in a constructive manner. Credit corporations should be organized only where such additional credit facilities can meet the test: Can a community use more credit safely and upon a profitable basis?

As a result of over 6000 bank failures since 1920 many agricultural communities find their credit facilities seriously impaired. In recent years correspondent banks frequently have been unwilling to supply

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EDITORIAL

The Convention

IN a changing world the times never are the same. Always an annual convention faces new conditions, new circumstances, a new economic and financial background. That has been true in all of the long history of the American Bankers Association but never truer than in this year of 1931.

Everyone has felt the pressure of the new conditions. Few see their way clearly; nations seem to grope for a new pathway. In an economic world that is in a state of flux, precedents lose reliability; new beacons must be raised. In such periods men have from time immemorial gathered together to take counsel.

The annual convention of the American Bankers Association which will be held at Atlantic City, October 5th to 8th should and will bring to its councils the forward looking bankers of the North American continent, for the proceedings of the convention will cover the whole range of banking activities and should offer to everyone valuable aid as the world passes through one of the strangest economic phenomena that it has ever known.

Repercussions of Barter

THE agreement entered into by the Federal Farm Board with the government of Brazil to trade 25,000,000 bushels of wheat for 1,050,000 bags of coffee opens up a new chapter in the history of governmental price fixing.

Heretofore we have known only the accumulative phase; now there comes the distribution phase which will reveal the intrinsic value of the effort to stabilize prices.

The outstanding fact in the transaction is that though it relieves the government agency of 25,000,000 bushels of wheat, it creates no new market but instead closes one market to wheat in the form of flour. It shows no profit but instead an immediate loss to the government estimated at $10,500,000. To some observers the transaction appears only in the form of a transfer of wealth since the loss just given, and all of the other loss involved in the efforts to artificially hold up the price must fall upon the people at large.

Beginning this month or next, Brazilian ships will transport the wheat. The transfer, if made all at once, would require 100 ships it is estimated; the transfer of the coffee would require 13 ships, a nice bit of tonnage in which there is no expectation that our lines will participate as under the terms of the agreement, Brazil is to carry the freight. Naturally there is disappointment in shipping circles that the bargain did not take account of the wishes and the needs of American shipping.

There is disappointment, too, among the millers of the United States because Brazil has placed an embargo of eighteen months on flour imports and the millers of this country point out that last year we exported flour valued at $4,386,340 to Brazil. Even if we would, we cannot place a compensating embargo on coffee. On the contrary the Farm Board has agreed to withhold this coffee from the market for one year, and then to feed it out at the rate of 62,500 bags per month. Meanwhile Brazil is at liberty to sell as much as she can in the American market.

The coffee interests of this country feel that their lot has not been improved by the creation of a condition that places their businesses in jeopardy, and there are murmurings from the wheat farmers who in due course will express themselves through their organizations.

The ramifications of so great a transaction are almost endless. In some sections of Latin America the deal is regarded as an unfriendly act on the part of the United States. Argentina last year sold 20,000,000 bushels of wheat to Brazil; the year before Argentina sold 25,000,000 bushels to Brazil. The door has now been closed against her, and it logically follows that Argentina seeking a market elsewhere will as a matter of course cast its influence on the world market for wheat.

In this transaction the Farm Board has relieved itself of some of the giant surplus of wheat, but there is little prospect that price conditions will in the long run be helped by the swap.

The monetary loss indicated in the foregoing is something that has generally been expected but the raising of the cry in South America that we, like Russia, are dumping with little consideration for the price is to be profoundly regretted.

No Parallel

EVER since we have been storing up wheat with the financial and moral aid of the Federal Government, there have been comparisons between this unparalleled accumulation and what Joseph did when he was what we moderns would call Food Commissioner of Egypt. But there is in reality no true comparison to be drawn.

Joseph stored grain during seven years of plenty against the coming of seven lean years and when there was a scarcity in the land, his main object was not to get the top price whereas we in America have no thought of the coming of any lean years—no fear of crop failure; we have accumulated only with the

thought of keeping prices from striking ruinous levels.

Some of Joseph's purchasers found their money in the bags of grain they had purchased, but we, though there is famine in the world, have not yet given away any wheat. It is true that the nation is caring for its poor. Gifts for the destitute and the unemployed of necessity imply purchases of the wheat from which bread is made, but no large scale effort to assuage the sufferings of the famine stricken areas of Asia has been undertaken.

Perhaps if no way is found for disposing of the surplus without great embarrassment and great loss, some unforeseen condition may come about to make us happy over our wealth of wheat. That, however, is a possibility as remote as the stars. We are faced with a condition not likely to change for the better unless an heroic remedy is found. The home remedy of blind storage has proved by a long trial to be not only ineffective but aggravating to the disease.

There seems to be logic in the plan recently agreed upon for sending some of our surplus wheat to the famine stricken areas of China where people are dying for lack of food.

Even though our bargain be never so poor, public opinion and public conscience might be cleaner and less troubled than if we held on like heartless misers to our great surplus while multitudes die.

Our stabilization program having been ineffective, the failure will be no greater if it be at last tapered off in an act of ordinary charity.

After the Moratorium, What?

THE moratorium proposed by President Hoover has given Europe a respite but the moratorium of itself will not cure the ills of Europe, and unless something is done to restore confidence before July 1, 1932, there will be danger of a more difficult situation than that which prevailed in June of this year.

That in effect is the belief of the National City Bank of New York as expressed in its current bulletin, in which it presents a review of the European debt situation. Progress has been made it says in the ordinary economic processes but it adds:

"What is needed now above all else is a restoration of confidence, and this can come only through the removal of what is, in our opinion, the chief restraining influence, namely, apprehension as to the ultimate outcome of conditions in Europe.

"If the political situation could be improved, particularly as regards the Franco-German relations, and business relieved from concern over the possibility of a premature attempt to force resumption of debt payments, we believe that these would be the most constructive steps that could be taken toward improving the public psychology and bringing the depression to an end."

"It is clear," says the bulletin referring to the report of the Basle committee of inquiry, headed by Albert H. Wiggin, chairman of the governing board of the Chase National Bank, "that the committee regards a realistic settlement of the reparations question as an indispensable prerequisite of German economic recovery. The committee places the responsibility directly on the governments of the world to see that this is done, and warns that there is no time to lose. The implication seems plain that the committee anticipates an early reconsideration of the reparations question with a view to a further possible scaling down of these debts.

"There can be no disagreement with the views of the committee as to the desirability of an early settlement of this question on an economic basis.

"When the Hoover moratorium was first proposed its purpose was stated to be 'to give time to permit debtor governments to recover their national prosperity.' It would appear miraculous, however, for such recovery to take place within a year. Two months already of the period of grace have elapsed, and soon people will be concerned with the question as to what is to happen after July 1, 1932.

* * *

"If nothing is done, the world at that time will be in danger of a more difficult situation than it was in June this year, when the moratorium was first proposed. It is inconceivable that governments will permit the situation to drift in this way. Nevertheless, the uncertainty that exists is casting a blight over business everywhere."

A large part of Europe is honestly and valiantly struggling upward, but notwithstanding that effort, it seems to be plain that there is a deep and dangerous drift coming from individual altitudes. Outstanding indications of the drift are the dole and arbitrary fixing of wages in England, militaristic fears and national ambitions in Europe and Russia, and always the age-old distrusts between nations—all of which are expensive luxuries in ordinary times but killing luxuries in hard times.

And as we draw closer to the affairs of Europe these things reflect with increasing force upon our own affairs.

"King Cotton"

OF ALL the kings who have lost their high places since the beginning of the World War, none is so much regretted in this nation as King Cotton.

A munificent, a beneficent, a popular regent was King Cotton. He was a part of the very life of a great area of the South. From the poorest family of field darkies on up through the whole of the social fabric, he was a familiar, an intimate of all. He gave an empire its living; through him regions came to know prosperity and thousands to experience the comfortable reflections that attend the possession of a competence.

The North, too, always has shared in his beneficence and incalculable fortunes were woven from his white fleece. Of the 33,993,000 active spindles in the United States on September 1 of last year, 14,861,000 were in northern states.

The fall of King Cotton is, therefore, not a thing apart from any of us, but a disaster intimately touching a multitude of lives for even in the remotest corners this was a better and more prosperous nation while he held sway. With his old power diminished, many worthy people do not know how to carry on, yet there is this consoling thought:

The world cannot get along without cotton, and though he may never regain his full powers as of old, King Cotton is reasonably sure of coming back!

In that he differs from the goodly band of deposed kings overseas. His set-back was due to no misdeeds of his own, but rather to the circumstance that too many planters were too fond of him!

Is Germany So Helpless?

By GEORGE E. ANDERSON

Committee of Bankers at Basle Had No Choice But to Continue Short Term Credits, But Next Move Must Come from Germany. Approximately $1,250,000,000 of German Capital Has Left the Country in Past Four Years and the Movement Is Not Over Yet.

IS Europe, and especially Germany, as badly off financially as it is supposed to be? Are American short term, long term, any kind of loans so essential to European and especially German recovery? Admitting the necessity of action on the part of the Government at Washington and other powers in the recent crisis, and admitting the advisability of the extension of American loans of all sorts to Europe and especially to Germany if and when they can safely and properly be arranged, is it to be said that Europe in general and Germany in particular as the weakest of the great trading powers can no longer help themselves?

Self Help Comes First

CERTAINLY the financial position of Germany and several other European powers leaves much to be desired and assuredly, also, American assistance can be extended with profit and advantage to all concerned when European conditions and the American bond market make that possible or advisable. But there are some features of recent capital movements in or from Europe which suggest that the countries in difficulty can do much to help themselves and that this degree of self help is an essential preliminary to help from the United States or any other country.

The outstanding features of the international financial transactions of the United States last year were the increase of $357,000,000 in the purchase by foreigners of their own dollar bonds and a decrease of $443,000,000 in American short term indebtedness to foreigners on banking account. The former item represents the activity of foreigners, including people of nearly all European countries, to buy their own dollar obligations to American investors for investment or sinking fund purposes. The latter represents the withdrawal of about $284,000,000 in short term investments they had previously made in the United States with an increase of $159,000,000 in American short term investments in other countries—chiefly in Europe and mostly, in fact, in Germany.

This general movement has continued into the current year except that in the meanwhile many American short term commitments in Germany were withdrawn, for a time at least. The withdrawal of foreign short term funds from the United States, for example, is indicated by the decrease in foreign holdings of American acceptances evidenced by the reduction of the Federal reserve's "contingent liability on bills purchased for foreign correspondents" from $481,315,000 on July 23, 1930, to $298,111,000 on July 22, 1931. The same institution's July Bulletin indicates a further increase in American short term lending abroad by showing holdings of foreign currency acceptances of more than $10,000,000 in June as compared with practically none the year before and this was before the recent credit of $25,000,000 granted the Reischsbank by the Federal reserve was drawn upon and promptly exhausted. The July report of the American Acceptance Council also shows that acceptances based on goods stored in or shipped between foreign countries have increased from $441,764,261 on June 30, 1930, to $493,643,884 on June 30 of the present year while bills to create dollar exchange had increased in the same period from $50,120,200 to $69,216,558.

Back to Level of 1925

AS a result of this movement in either direction it is probable that foreign owned short term investments and deposits in the United States are lower at the present time than they have been at any time since 1925 when the foreign short term investments in this country commenced to assume dominating importance. It is also probable that the American holdings of short term investments and deposits abroad are greater at the present time than they have been for several years. Nevertheless at the end of 1930, as shown by the Government's annual review of the short term capital movements, American ownership of such investments abroad amounted to $1,725,759,000 as compared with $1,565,481,000 the year before while foreign ownership of such investments in the United States at the end of last year amounted to $2,793,699,000 as compared with $3,077,454,000 at the end of the previous year and the net indebtedness of the United States on short term banking account at the end of last year was $1,067,940,000 as compared with $1,510,973,000 at the end of 1929. At the present time it is probable that the net American short term indebtedness to other countries is between $800,000,000 and $900,000,000. We have paid back heavily and loaned heavily in response to Europe's needs.

German Balances Abroad

MUCH of this adjustment of our short term indebtedness to foreigners has occurred in our financial relations with Germany. Last September it was estimated that German short term obligations abroad, including paper running up to three years, amounted to about $2,750,000,000 against which German banks held deposits or short term investments abroad of about 35 per cent on an average, nearly a $1,000,000,000—as reserves to meet sudden withdrawals. Something like $500,000,000 of these reserves were held in the United States. It is generally estimated that since September, 1930, Germany has lost $760,000,000 in foreign capital invested in that country in these short term obligations, the greater part of these losses having been met by reduction in German reserves abroad, this process being particularly marked in the reduction of German balances in the United States which were estimated at only $175,000,000 on July 1. However it is also estimated that Germany has lost at least $1,250,000,000 in the flight of its own capital to other countries in the past four years, $250,000,000 of which has been lost in the past nine months.

While the withdrawal of foreign capital from Germany during the past

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Bond List Must Fit the Bank

By PAUL M. ATKINS

Three Factors Should Control Purchase of Bonds: First, What Are the Bank's Special Requirements? Second, Which Issues Best Meet These Conditions? And Third, What Is the General Economic Outlook? Survey Discloses the First of These Neglected.

THE bond portfolios of banks during the past year have been the largest single factor contributing to the strength or weakness of banks. There is plenty of evidence available to support this opinion and bond portfolios, therefore, demand the same amount of time and attention, of thought and study, as the local loan portfolios. In fact, in the case of many country banks, the former exceed the latter in value.

It seems appropriate, therefore, particularly at the present time, to consider the various factors which control, or which should control, the purchase of bonds by banks. These various factors may be defined in three major groups: the needs of the individual banks, the issues of bonds, and the general economic and financial situation.

Always Changing

IT is clear at first glance that all of these groups of factors are variables. In other words, the various factors are not stable, but are changing from day to day, some rapidly, some slowly, some changing relatively steadily and others at varying rates. This means that is is impossible to reach conclusions in respect to the purchase of bonds which may be regarded as permanent. The decision today to buy a security may be changed to one to sell within a short time, without necessarily implying that the first decision was in any way unwise or unsound.

Heretofore, when an attempt has been made to consider the various factors which control the purchase (and sale) of bonds by banks, the first group of factors has generally been overlooked, or at most has received only casual consideration. The major emphasis has been laid on the second group of factors. This is a very curious and anomalous situation. It is much the same as though a doctor gave a great deal of attention to the medicines which he employed and little or none to a diagnosis of the malady from which the patient was suffering. It is quite clear that no doctor can prescribe intelligently without ascertaining the condition of his patient; it should be equally evident that it is impossible to control the bond portfolio of a bank successfully without ascertaining what the reqirements of the bank are for bonds.

Reserves and Investments

BEFORE considering briefly the factors of the individual bank which enter into the control of the bond portfolio, it is desirable to recall to mind the fact that this portfolio should be divided into two sections, one of them forming an integral part of the secondary reserve of the bank and the other of the investment account. The factors, therefore, in the individual bank which affect its purchases of bonds, are those influencing the size and composition of these two accounts.

The secondary reserve account of a bank, as its name indicates, is a reserve—similar in general function to the primary reserve, but subordinate to it. The same factors, therefore, which control the primary reserve, govern the establishment and control of the secondary reserve and investment accounts. The outstanding factor is, obviously, the ebb and flow of funds through the bank. This factor is made up of a number of subfactors, including deposits—both time and demand—bills payable, local loans and discounts, local mortgages, United States Government securities, general list bonds, commercial paper, call loans, and any other assets or liabilities which are of importance and likely to be subject to fluctuations. The study of the trends of these various items over a period of a year is absolutely essential to a determination of the amount of the reserves, both primary and secondary, which it is desirable to schedule. It makes considerable difference whether, for example, the peak of the demand deposits is less than 10 per cent higher than the low point over a five-year period, or whether the peak is over 90 per cent greater than the low point for a single year—a range which experience shows to be approximately normal in the case in question, based on records covering five years.

These cases may be regarded as extreme or abnormal, and such is a fact, judging from a study of over 800 banks. They serve to emphasize the necessity of studying this factor, for unless an analysis is made, it is not known whether the fluctuation is so great (or so little) as to be considered abnormal, and unless the situation is known, it is impossible to provide for it intelligently. Such an analysis would appear to be not only reasonable and logical, but as evidently necessary, and yet of the 800 banks and more just referred to, not one had made such an analysis for itself nor had any bank made provision for it at the time when the author first made contact with them.

Analysis Guides

THE connection between a study of the ebb and flow of funds through a bank and the purchase of bonds for its secondary reserve account is very direct. In the first place, the size of the secondary reserve is directly predicated in large measure on the results of this analysis. In the second place, the degree of liquidity required by this account is also dependent on this same analysis. The size of the account and the degree of liquidity required are the major elements determining the number, character and maturity of the bonds to be included in the secondary reserve account of a bank. Indirectly, by indicating, in a general way, the probable amount of funds available for the investment account of the bank, this analysis has important bearing on the amount and character of the bonds to be included in this latter account.

There are many other points to be considered in the analysis of the ebb and flow of funds which have a bearing on the purchase of bonds. One of these which, at the present time, is subject to much discussion in the banking world, is the rate of interest paid on time deposits. The high rates of interest which are accorded time deposits in many instances have been a compelling factor in the selection of bonds for the investment account of

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Mexico Tries Managed Currency

By JOSEPH STAGG LAWRENCE

New Law Represents No Immediate Abandonment of Gold Standard but Foreshadows an Attempt to Maintain the Silver Peso on a Parity With Former Gold Peso. Decline in Oil, Silver and Copper Added Considerably to Foreign Debt Service.

MEXICO has undertaken a monetary experiment which she considers an astute move in succoring her tottering budget and relieving her difficult position in the international financial firmament. A hasty reading of the new monetary law passed on July 25 caused American correspondents to cable home that Mexico had repudiated the gold standard and definitely embraced the white metal as the basis of its currency. Like the report of his own death which Mark Twain received while still very much among the living, this interpretation must be termed a trifle premature.

There is this much substance in the early report. Unless the Mexican Government exercises determined restraint and resists temptation, the analysis of the correspondents may be warranted by events. In the meantime, it is necessary and only fair to deny that such a consequence is the intention of the law and will necessarily follow its passage.

To Reassure Foreigners

THE reaction of foreign observers was not unforeseen, and the Mexican finance minister, Luis Montes de Oca, has instituted a vigorous backfire of publicity intended to reassure foreign financiers and the world in general that Mexico has no intention of discarding the gold standard or disavowing in any way its external obligations. As a special measure to fortify alien confidence in Mexico, former President Calles has been appointed president of the Bank of Mexico.

Before undertaking a discussion of the statute itself, it might be well to indicate briefly the developments which have brought Mexico to the point where she felt justified in undertaking this radical revision of her monetary system. Since 1905 Mexico has been on the gold standard. There have been lapses due to political disturbances; and the gold standard, when in effect, was largely of the exchange variety. That is to say, there was no sustained free conversion or redemption of Mexican currency in gold, nor was there much gold in circulation. The Bank of Mexico maintained balances in gold standard countries against which drafts were sold for Mexican pesos. Mexico, therefore, has never been firmly established for any length of time on a Simon-pure gold standard.

When Gold Is Scarce

UNDER certain conditions an exchange standard operates satisfactorily and makes it possible to bind the vale of the domestic unit of currency to a given quantity of gold without using a great deal of the yellow metal. It is the most economical form of the gold standard, and where countries cannot afford the extravagance of a large domestic gold reserve, it is an entirely desirable monetary expedient.

Mexico has been through a number of lean years. Her difficulties, of a nature peculiar to Mexico, have placed a serious strain upon her monetary system. She has substantial foreign obligations, the service on which is payable in gold. In the chronology of economics, she is still an immature country, and her exportable products are principally raw materials which have taken a terrific lashing in the price decline now afflicting the world. It is but necessary to mention three of her exports: silver, copper and oil.

Mexico's Debt Service

SHE is the world's greatest producer of silver, contributing 42 per cent of the world's production of that metal in 1930. During the course of the last two years silver has dropped from fifty-six cents an ounce to twenty-eight. Mexico's annual service on the obligations sponsored by the Morgan group amounts to approximately $25,500,000. In the early part of 1929, this annual charge could have been met by the export of 45,500,000 ounces of silver. At the present time, to meet the same charge, it is necessary for Mexican mines to turn out 91,000,000 ounces of the white metal. In terms of this relative item of Mexico's income, her debt service in the short space of two years has doubled.

We find that her debt, in terms of copper, another substantial item in Mexico's exports, has increased 125 per cent. As we move on to oil, another product with which Mexico is accustomed to pay for her imports and discharge her annual service on her debts, we find that it requires 2.78 barrels of oil where two years ago but one barrel was necessary. In other words, the drop in the value of Mexico's exports has caused her obligations to swell in inverse ratio.

In addition to this price difficulty, the condition of the world's markets

in these raw materials has made it impossible to dispose of a greater output, assuming that Mexico were capable of producing it. With lower prices has come reduced demand.

Efforts to Ease Pressure

MEXICO has resorted to heroic expedients in the attempt to allay domestic distress, balance her budget and maintain faith with her foreign creditors. The Lamont-de Oca agreement, the result of negotiations between the Mexican Government and J. P. Morgan & Co., is an attempt to accommodate Mexico's foreign obligations to her capacity to pay. In view of her inadequate resources of gold and the prohibitive agio on silver, the Mexican Government was permitted to pay into a Mexican depository in silver pesos the annual service on her foreign debt. This is permitted with the hope that improvement in the price of silver during the course of the next two years will make it possible to translate this internal fund at a more favorable rate into gold currency.

At home, Mexico has kept her mines in operation in spite of the world situation chiefly because she does not dare to turn loose the thousands of peons for whom labor in the mines is the only source of livelihood. She is now seeking to balance her budget by reducing expenditures and increasing taxes. Among the proposals under consideration are the indefinite postponement of public works, higher import duties, a 10 to 15 per cent reduction in the salaries of civil employees, and a cut of 25 per cent in the pay of army officers. There is some fear that a drastic tax, to be levied upon the gross receipts of all industry, commerce and agriculture, based upon the income tax reports of the past, may prove to be retroactive. It is causing some uneasiness in Mexico and also in foreign countries whose nationals have substantial investments in the republic to the south.

Provisions of New Law

ON July 25 Mexico passed her new monetary law. This provides for the circulation of bank notes issued by the Bank of Mexico, silver coins of one peso denomination and appropriate fractional currency. The notes of the Bank of Mexico will not be legal tender, although they will be acceptable at all public Federal offices, and those of states and municipalities without limit. The silver and subsidiary coins are legal tender within the country. Obligations calling for payment in foreign currency contracted "either within or outside the Republic to be complied with within Mexico will be discharged by delivering the equivalent in Mexican money at the rate of exchange in force at the time and place where payment should be made."

Monetary reserves set up under the law will consist of certain securities defined by the law of March 25, 1905, profits on foreign exchange transactions, seigniorage profits derived from the coinage of silver, proceeds of loans made for the specific purpose of creating the reserve, and also such funds as may be provided in the budget of the government for this purpose. The law seems to contemplate a reserve in Mexico as well as in other countries, and limits it to gold and silver bars.

Divorced From Gold

UNDER the "transitory dispositions" of the law, there is a provision suspending the minting of national gold coins, the removal of all restriction on exports of gold either in bars or coins, and the stipulation that "all obligations contracted up to date of this law in national money of any species will be liquidated by payment in the coinage set forth in this law within the limits of their respective power as legal tender.

"Notwithstanding the dispositions set forth, gold coin should be delivered by those who may have received same for collections for account of a third party or in the character of a confidential deposit, or by virtue of any other contract which has not been transferred. Banks or banking institutions must pay in gold 30 per cent of the deposits which the public may have intrusted to them in that species at sight or for a period not greater than thirty days sight." This will be a distinct hardship on foreign banks operating in Mexico, since the law permits borrowers to pay their loans in silver but compels the banks to pay some of their own obligations up to 30 per cent in gold. The statute clearly indicates that Mexico intends to divorce its monetary system from gold and to deny gold that free access to the mint which it has enjoyed.

Requires Restraint

AT the same time, statements issued by the finance minister bespeak a desire and an ambition on the part of Mexico to maintain the value of the silver peso on a parity with the former gold peso. Theoretically, this is entirely possible. Mexico may be able to regulate the supply of pesos so as to maintain their value at par with the gold peso. This will require extraordinary restraint and a finesse in control which has never before been demonstrated in monetary history.

It has been the contention of the economists of the "managed currency" school of thought that no nation has ever seriously undertaken the task of regulating the quantity of currency for the purpose of maintaining stable purchasing power at home and stable exchange rates with other countries. There are times, be the management ever so gifted and detached, when these two ends are incompatible.

As an example, we may cite the fact that exchange rates between the United States and other gold standard countries today are stable within the range defined by the export and import points of gold. Nowhere has the purchasing power of money been maintained. Theoretically, the United States should have adopted inflationary measures in the early spring of 1931 in order to avoid the collapse of commodity prices which has taken place. Such a course, granting for the sake of argument that it might have been successful, could have been maintained only at the cost of unstable foreign exchanges.

Theoretically Possible

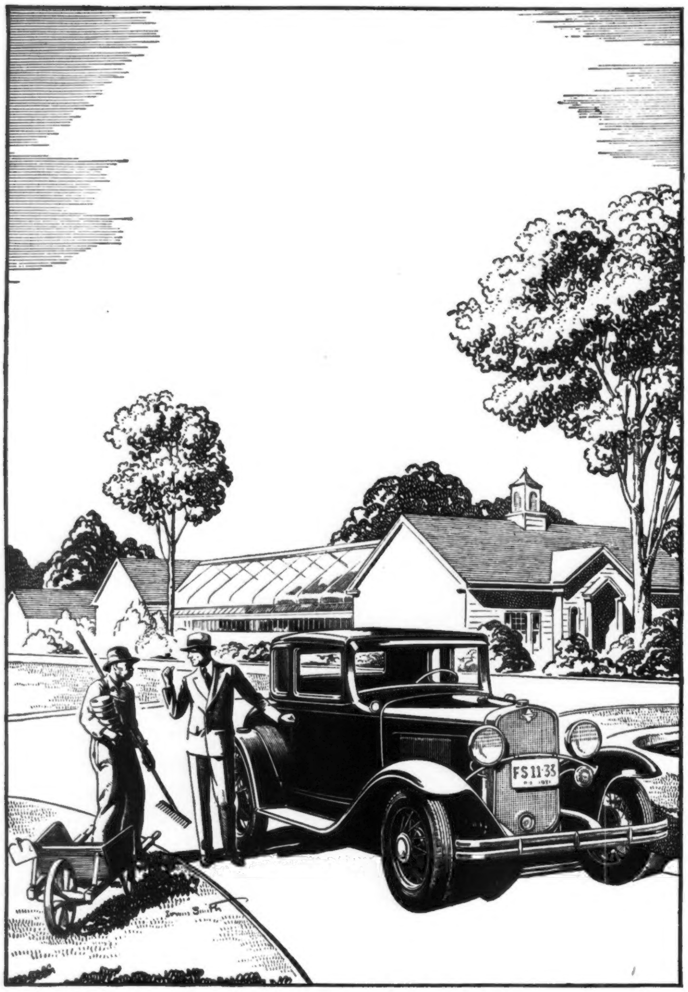
THE question now arises regarding Mexico's particular purpose. Will her finance minister resort to the mint for additional pesos? This may be accomplished through free coinage with a substantial seigniorage charge or by restricting coinage to the government, with the latter realizing the difference between the value of the bullion in the peso and its purchasing power.

Substantial additions to Mexico's currency will, of course, have the effect of increasing domestic prices. On the other hand, it will seriously disturb foreign exchange rates. If Señor de Oca adheres to the strict and narrow course of monetary virtue by limiting the coinage of silver pesos and the circulation of Bank of Mexico notes, it is theoretically possible to raise the value of the Mexican unit of exchange to a point where it will be bought and sold in the markets of the world on a basis no less favorable than that of the gold peso. The realization of such an ambition would necessitate, first of all, a balanced budget and, secondly, a denial of all further coinage. The effect upon domestic prices and domestic business activity would be deflationary and would aggravate the very distress which Mexico is now suffering.

Of course, it would raise the value of the Mexican peso. Whether this balm to national pride would be adequate compensation for the added provocation of her economic distress, and whether it would be politically

(*Continued on page* 173)

The new Chevrolet Six is an outstanding General Motors value



The New Chevrolet Sport Coupe

Among the exceptional motor car values offered by General Motors, none is more significant than the new Chevrolet Six. This smooth, capable new Chevrolet with smart Bodies by Fisher is the outcome of twenty years' manufacturing experience devoted to producing the best car possible at a low cost. It has brought to its field a finer measure of quality than has previously been considered possible at the price. In fact, so complete is its quality and so surprisingly low is its price that it has been hailed as the Great American Value . . . a value to which the public has responded by widespread buying of Chevrolet six-cylinder passenger cars and trucks. Consequently, the Chevrolet dealer is today enjoying unusual sales advantages which establish him even more firmly in his community as a successful, progressive merchant of sound financial standing.

NEW CHEVROLET SIX

The Great American Value

New Low Prices—*Roadster, $475; Sport Roadster (with rumble seat), $495; Phaeton, $510; Standard Coupe, $535; Coach, $545; Standard Five-Window Coupe, $545; Sport Coupe (with rumble seat), $575; Five-Passenger Coupe, $595; Convertible Cabriolet, $615; Standard Sedan, $635; Special Sedan, $650; Convertible Landau Phaeton, $650. Special equipment extra. Low delivered prices and easy G. M. A. C. terms. Chevrolet truck chassis, $355 to $590. Product of General Motors. All prices f. o. b. Flint, Michigan. Chevrolet Motor Company, Detroit, Michigan.*

Municipal Auditorium, Atlantic City

A. B. A. Convention Will Discuss Service and Profits

Better Administration and Greater Stability of Income Will Be Twin Goals of the American Bankers Association at Atlantic City. Paramount Problems of Management and Policy Comprised in Program Which Will Include All Angles of Banking.

SPEAKERS before the general sessions of the annual convention of the American Bankers Association in Atlantic City, Oct. 5 to 8, will discuss the condition of industry, broad questions of domestic and foreign banking, farm problems, farm finance and the nation's income from agriculture. The convention program is a pledge of the service which banks can render the nation by working together.

The Division programs will deal with practical banking; their purpose is to increase the profits, usefulness and leadership of banks. Speakers before the Division meetings will discuss specific problems relating to savings, trust work, national banks and state banks. They will summarize the past year's progress in management and will present the best available facts concerning service charges, interest rates, investment matters, personnel and other banking problems identified with autumn, 1931. Bankers who come to Atlantic City for this convention will be fortunate.

Purpose

THE matter of attendance is important—more so, probably, than at any time since the Association came into existence—because this is hardly a time to forego the benefits of useful contact with other bankers. There have been fifty-six annual conventions since July, 1875, when 349 delegates from thirty-two states met at Saratoga, N. Y., and organized the American Bankers Association. It would seem to be a matter of particular interest at this time to recall that James Buell, president of the Importers and Traders National Bank of New York, addressing that first meeting in his capacity as first president of the Association, expressed the purpose of the convention in these words:

"I count myself fortunate in being present at this, the largest convention of bank officers ever assembled on this continent—almost every section, from Maine to Mexico and from the Atlantic to the Pacific, being here represented. To the valley of the Mississippi belongs the credit of originating this meeting. The object, as I understand it, was to bring together for mutual interchange of thought a body of men who, for the most part, have less personal acquaintance with each other, I venture to affirm, than any similar body of business men in this country. The duties of a bank officer require his personal attention so constantly, that he rarely feels at liberty to take even a short vacation to enjoy such social pleasures and associations as other business men do. We hope this meeting is the beginning of a

new era—a new departure—and that many more like it will follow. It will do us good to come together occasionly and interchange thoughts and greetings. We are apt to get into ruts and to see things from our standpoint alone and to regard all other doxies except our particular doxy as heterodoxies. Discussions will bring out different views and all, we trust, will be enlightened."

Ogden L. Mills,
Undersecretary of the United States Treasury

This described the original need which created the Association and today the same need even more urgently requires the attendance at Atlantic City of all bankers devoted to good banking. Rome C. Stephenson, president of the American Bankers Association, states that no more serious meeting of American bankers has ever been planned than the forthcoming convention.

Challenge

"WE cannot blink the fact," says Mr. Stephenson, "that certain aspects of the bank failure history of the past two years challenge our profession and our Association to a new era of activity and achievement. Even though the vast majority of our bankers stand four square before the public as faithful stewards of their trusts, and their institutions continue to serve their communities through an unparalleled economic storm in a way that brings new honors to our banking traditions, it cannot be denied that the acts of a few have been unduly magnified to the detriment of all. Demagogic criticism of banking has created problems not only affecting bankers but the public interest as well.

"Great tasks lie ahead of your Association. They demand the earnest and active participation in its deliberations and activities on the part of bankers in all parts of the nation.

"Foremost is increased bankingwide support and development of the association's already extensively operative functions for promoting more scientific and impregnable banking methods throughout every part of the profession whether in large cities or small rural communities. The Association believes it is the duty of every banking institution in the nation to give its community the benefits of the best banking experience and practice obtainable such as are being made available by this Association's scientific bank management studies."

Order of Meetings

ALL general sessions and Division meetings will be held in the ball room of the Municipal Auditorium. There will be organ recitals by Karl Bonawitz at 9.45 a. m. preceding each of the general sessions on Tuesday, Wednesday and Thursday mornings. The sessions will be called to order at 10.30 a. m. each day with Rome C. Stephenson, presiding. The first Division meeting will be that of the Savings Bank Division at 9.30 a. m. on Monday. The State Bank Division will assemble at 2 p. m. Monday, the National Bank Division at 2.00 p. m. Tuesday and the Trust Company Division at 2.00 p. m. Wednesday.

President Stephenson will address the opening session of the convention on the record of American banks during the past year when they were being forced to bear the brunt of the depression. He believes that the immediate future will bring to banking greater problems and greater opportunities than ever before and that banks must prepare to take the lead when recovery gets under way. His address will be frank and to the point on the subject of bank suspensions and the necessity for building up a more secure foundation of public confidence. He will state in clear terms the Association's attitude toward this central problem of banking.

Three eminent speakers will address the convention on three outstanding business and financial topics. H. L. Russell, chairman of the Advisory Council, Agricultural Commission, American Bankers Association, will speak on the subject "Give Us This Day Our Daily Bread." Dean Russell is an outstanding authority on scientific agriculture. During an active public career he has been professor of bacteriology in the University of Wisconsin, Dean of the College of Agriculture and director of the experimental station of the same university, director of the Wisconsin State Hygienic Laboratory, president of the advisory board of the Wisconsin Tuberculosis Sanitorium, a member of the Wisconsin commission of the U. S. War Finance Corporation, and a member of the staff of the U. S. Food Administration during the war. He is also author of books on dairy and agricultural bacteriology and numerous reports of experimental work. Recently Dean Russell, on behalf of the United States Government, completed an exhaustive study of cooperative agriculture in Java and New Zealand where the cooperative idea has been developed to a high point.

Ogden L. Mills, Undersecretary of the United States Treasury, will speak on those aspects of the national and international financial situation which concern American banks. The turn which events have taken in recent weeks gives this address a place of great importance. History seems to furnish no exact precedent for guidance in meeting such problems as lately affected Austria, Germany and England and representatives of American banking are working with the bankers of Europe to find a solution. A fluent and entertaining orator, Mr. Mills is a lawyer and financier with a long career of public service. He served as captain in the A. E. F. in France and was a member of Congress from New York state between 1921 and 1927.

Richard H. Grant,
Vice-President of General Motors Corp.

Richard H. Grant, vice-presi-

(Continued on page 161)

A.B.A. Convention Will Discuss Service and Profits

(*Continued from page* 158)

dent of the General Motors Corporation, Detroit, will address the first general session on the important question of "Business Management in Retail Activities." Mr. Grant is one of the country's leading industrial executives. He will bring to the convention a point of view that is thoroughly grounded in experience.

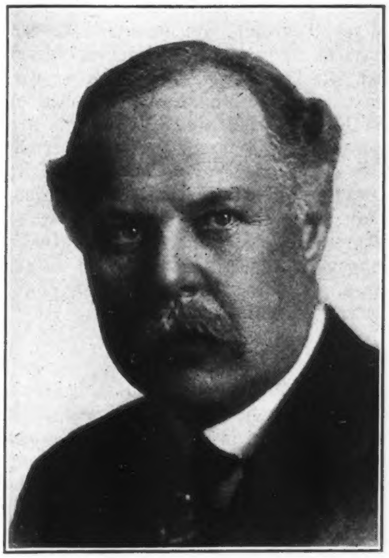
The first session will include also reports on the official acts and proceedings of the Executive Council. Other events and the time they are scheduled include the appointment of the resolutions committee at the first session, the report of the nominating committee and election of officers at the second session, the report of the resolutions committee at the second session and the installation of officers at the third session.

The Savings Bank Division meets Monday morning in the Municipal Auditorium ball room. A. C. Robinson, president of the Division and president of the Peoples-Pittsburgh Trust Company, Pittsburgh, Pa., will speak on "The Morality of Thrift." Mr. Robinson has obtained facts of interest to every savings banker and will incorporate them in a discussion of the habit of saving. Henry Bruere, president of the Bowery Savings Bank will speak on "Savings Banking Gets Bigger Job," and there will be a third address the subject of which has not yet been determined. The program of speeches will be followed by an open forum during which all bankers present at the meeting will have an opportunity to ask questions.

The National Bank Division will meet Tuesday afternoon in the ball room. According to present plans there will be four addresses including that of Edmund S. Wolfe, president of the Division, and president of the First National Bank & Trust Co., Bridgeport, Conn. Eugene Stevens, chairman of the board of directors of the Federal Reserve Bank of Chicago, will discuss certain phases of the banking situation which are of special importance in gauging the future. Guy P. Miller of the firm of Searle Miller & Co., New York City, will speak on a subject yet to be selected. Frank P. Bennett, Jr., editor of the *United States Investor*, Boston, will speak on "What Steps Will Assure the Future of National Banks."

Greater Revenues

THE program of the State Bank Division which meets Monday afternoon will include four addresses on subjects closely related to income. The first of these will be the address of the president of the Division, M. Plin Beebe, president of the Bank of Ipswich, Ipswich, S. D., on the work of the State Bank Division and reasons for maintaining the dual banking system. Fred W. Ellsworth, vice-president of the Hibernia Bank and Trust Company, New Orleans, will talk on "Bank Management—Yesterday, Today and Tomorrow." Fred B. Brady, vice-president of the Commerce Trust Company, Kansas City, Missouri, will bring the topic of service charges up to date. The title of his address will be "Measured Service Charges—Installation, Operation and Results." Personnel and the importance of having the right man in the right job, will be discussed by Allard Smith, executive vice-president of the Union Trust Company, Cleveland, under the subject, "Man Power in Banking Institutions." A period for general discussion will follow the addresses.



Harry L. Russell,
Chairman, Advisory Council, Agricultural Commission, American Bankers Association

The Trust Company Division, on Wednesday afternoon, will hear three addresses on the work of trust men or problems closely related thereto. Gilbert T. Stephenson, president of the Division and vice-president of the Equitable Trust Company, Wilmington, Delaware, will tell the story of trust company growth during the past year and point to problems requiring special attention during the coming year. Mr. Stephenson's address promises to be an instructive document. Frederick H. Ecker, president of the Metropolitan Life Insurance Company, New York City, will speak on the investment problems of a life insurance company, a subject on which Mr. Ecker is an authority of first rank. J. Stewart Baker, president of the Bank of Manhattan Trust Company, New York City, will discuss the problem of "The Trust Company and the Public." Following the addresses there will be an open forum for the discussion of current fiduciary topics and problems suggested by the speakers.

The State Secretaries Section will hold its meeting in the Submarine Grill of the Hotel Traymore, on Tuesday at 12.30 p. m.

The annual dinner of the Alumni Association of the American Institute of Banking will be held in the Hotel Traymore, Tuesday night. Ben Aley, vice-president of the United States Bank, Denver, Colo., will preside. The committee in charge of this event is planning to make it one of the high points of the convention.

Management Round Table

THE Bank Management Commission will sponsor a Round Table Conference of clearinghouse officers, officers of clearinghouse banks and others interested in clearinghouse problems on Wednesday, Oct. 7, at 2 p. m. in the library of the Hotel Traymore. The conference will be similar to one held last year in Cleveland when more than 200 bankers attended. There are eight main subjects on the program. The discussions of each will be led by a banker particularly qualified to do so. The chief purpose of the conference, however, will be to permit a free exchange of opinions and experiences on the leading problems facing bankers today—a clearinghouse for revenue-increasing ideas. First on the list of subjects is interest rates, why they should be lowered and what effect a cut in rates has on depositors. Another important general topic is that of simplifying bank statements for the better information of the public. Other subjects are cooperative bank advertising, the installation and operation of measured service charges, bank debits, credit bureaus, regional clearinghouse associations and the calculation of reserves.

(*Continued on page* 182)

What To Do When Drainage Bonds Default

By CLYDE D. HARRIS
President, First National Bank, Cape Girardeau, Mo.

Banks and Their Customers in Thirty-Five States Have Invested Almost $700,000,000 in Drainage and Levee Projects. Improvements Affect 84,815,500 Acres. Where Defaults Have Occurred Bondholders Have Several Ways to Reduce Losses.

BECAUSE of the wide distribution of drainage and levee bonds either among banks or their customers, and the difficulty that many districts are now experiencing, some plan for meeting the situation would save banks money. The last census shows that there has been invested $682,562,441 in drainage and levees in improving 84,815,500 acres throughout thirty-five states. This amount represents the amount of bonds that have been issued to make possible this improvement. Probably 75 per cent of this amount is outstanding.

Contrary to common belief, a surprisingly large percentage of districts have continued to meet their obligations under the most unfavorable conditions. Until 1925 a comparatively small proportion of districts had failed to meet all payments due.

Causes of Defaults

THE main reason for so many defaults by districts in the Mississippi valley states since 1925 is to be found in the continuous period of very unusual seasons that have occurred. The extremely wet fall of 1926 caused a large part of the crops to rot in the fields. This was followed by rain throughout the winter, which so saturated the ground and filled all the streams that it laid the foundation for the flood of 1927, one of the greatest in history. This flood came so late in the season that it was useless to replant the crops that had been destroyed. The flood of 1927 was followed by two very wet and backward seasons throughout the Mississippi valley. In 1928 in the month of June alone there were twenty-two inches of rainfall, nearly one-half the annual average rainfall. This deluge of rain ruined most growing crops and it was too late to replant. Only small crops were made in 1928 and 1929. In 1930 occurred the worst drought in thirty years, which is recent enough to recall vividly its effects. It fell heaviest upon the very section which had felt the effects of the three wet years, the section in which most of the levee and drainage districts are located. This meant four abnormal seasons in succession. Added to the already unfavorable agricultural situation it was impossible for many farmers to pay either their drainage improvement taxes or state and county taxes. It was inevitable that many districts should default.

Delay Is Costly

AFTER a project defaults the situation becomes worse and worse. If reorganization is inevitable the sooner it is effected the better it is for landowners and bondholders alike. The longer settlement is postponed the harder the task effecting it and the greater the loss to all parties concerned. Financial settlements seldom originate with the landowners themselves, but usually require constant pushing by the bondholders.

The investor feels utterly helpless when he finds that a district whose bonds he holds has defaulted in either principal or interest. There seems so little that he can do about it. If he were the only creditor he would know better how to proceed, but he is only one of many creditors. Most generally a bondholders' protective committee is formed by the investment bankers who originated the bond issue. The bondholder should cooperate with this committee by placing his bonds in their hands. There are instances, however, where the originating bankers are no longer in business or where investment bankers fail to show any interest in an issue after they have sold it. Or in some instances a few banks have gone together and financed a small issue. In either of these events it is necessary for the bondholders to take the initiative. Even when investment bankers take the initiative, bondholders should show a lively interest in all efforts to work out the situation. Protective committees are more likely to speed up their efforts and to take their task seriously if bondholders give them full support and let them know that they are keeping up with their efforts. The investment banker in most cases has long ago disposed of his holdings in the issue and is interested only because of his moral responsibility. It is the bondholders whose funds are invested, and if they merely write off their loss and show no further interest in the outcome, as so often happens, how can the protective committee be expected to exert itself to the utmost? Far better results would follow in working out defaulted bond situations if only bondholders would manifest the same interest and make use of the same determination and resourcefulness that they employ in working out situations in which they are the only creditors.

Find Causes of Default

IN working out the affairs of a district that has defaulted, it is necessary first to find out the causes of default. Is the drainage system adequate? Are annual installments too heavy? Is the large delinquency in taxes traceable to too large a proportion of unproductive lands? To be successful a financial reorganization must go to the root of the evil and correct the basic causes of default.

We may divide defaulting districts into two classes. In the first class we may place those districts whose difficulties are largely of a temporary nature; those districts whose difficulties are traceable to the period of continued adverse seasons referred to above in this article. In this classification will fall those districts with a large proportion of their acreage in cultivation. For the most part this class will comprise those districts in

(*Continued on page* 180)

DESTROYED . . . REPLACED —IN FIVE DAYS

A case from the Hartford Records:

"We've been shipping securities by air mail since it was established. Had good luck, too, until a few weeks ago when a plane carrying 89 lots of different securities from our Pacific Coast office crashed east of Cleveland. The contents of the packages were either destroyed or so damaged as to be useless. We were getting ready to make a claim at Washington, when the manager of our Western office wired to get in touch with Hartford: that the whole lot had been insured. We did. In five days Hartford had duplicates of all the stocks and bonds . . . bought in the open market . . . on our desk".

Under a Hartford Registered Mail Policy you can ship your valuable parcels by air . . . rail or water . . . with complete safety and assurance. The Hartford Policy is an all-risk contract. It covers loss or damage to shipments from *any* cause except specific theft by employees of the assured or by any persons to whom the shipment is sent. The conditions are simple . . . the coverage is automatic. From the time the package is delivered to the post-office until it is received and receipted for, it is insured. Charges are moderate and are payable monthly. Shipments to all parts of the world may be covered.

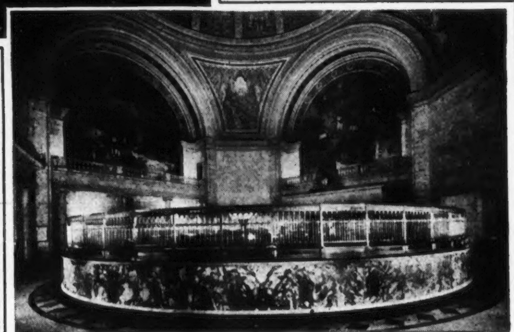
Ask your Hartford agent* for a sample policy and a schedule of rates.

The Two Hartfords offer Bankers: **Bankers' Blanket Bonds • Fidelity Bonds • Forgery Insurance • Registered Mail Insurance • Fire Insurance • Aircraft Insurance Burglary Insurance • Interior Hold-Up Policies • Messenger Hold-Up Policies • Damages Policies • Burglary and Robbery • Plate Glass Policies • General Liability Policies.** ***All other regularly recognized forms of protection are available.***

***If you do not know the name of the Hartford agent look under "Hartford" in your telephone book. If he isn't listed write the Hartford Fire Insurance Company, Hartford, Connecticut.**

THE HARTFORD FIRE INSURANCE COMPANY AND THE HARTFORD ACCIDENT AND INDEMNITY COMPANY HARTFORD, CONN.

Inside the windows of the Buffalo Savings Bank showing National Posting Machines in use and below, the beautiful Rotunda.



The Buffalo Savings Bank

tells its customers why National Posting Machines are used

Quick to sense the customer appeal of machine posting the Buffalo Savings Bank makes these interesting statements to its customers about National Posting Machines.

"With a great many more records today than any time in the bank's history skillfully designed equipment keeps everything in perfect order. To record a deposit, ledger card and passbook are inserted in machine, keys are pressed, a lever touched and the record is made simultaneously and exactly the same in passbook, on ledger card and on an audit sheet.

"Gone forever is the possibility of neglected entry of a difference of even one cent between ledger and passbook. Gone too are blots and indistinct handwritten entries.

"Gone is the nerve strain of tracking down trifling errors. The triple check of passbook, ledger and audit sheet immediately discloses the slightest inaccuracy and forces its prompt correction."

And in a further statement to us the President says, "We have used National Posting Machines for eleven months. They have been subjected to severe tests, particularly during interest periods which were the busiest of any in all our eighty-five years experience. The machines have responded in a very satisfactory way, enabling us to give our customers quicker and more accurate service. The results obtained from these machines are not approached by any other method of handling accounts."

THE NATIONAL CASH REGISTER COMPANY

Posting and Accounting Machines for Banks

DAYTON, OHIO

The Condition of Business

Some Seasonal Expansion in Trade and Industry. Domestic News More Favorable Than That from Abroad. Public Reaction Against Artificial Schemes to Control Business and Force Prosperity Becomes More Pronounced. Retail Trade Holds Volume.

THERE has been some expansion in domestic trade and manufacturing activity during the past month but probably of no more than seasonal scope. Improvement in the German situation has been offset by the crisis in England, and practically every country is now suffering from the slump in foreign trade, industrial depression, unemployment and unbalanced budgets.

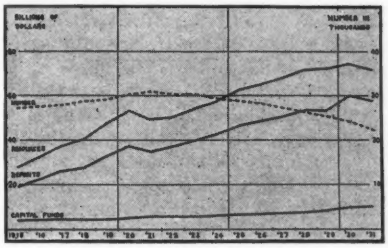
It is encouraging to find so many business leaders at last admitting the reality of the depression and the fact that prosperity is something that cannot be manufactured but is an outgrowth of natural expansion of business freed from artificial restrictions.

Attitude of Public

WITH the growing appreciation of the futility of all such schemes, the popular reaction is to demand their abandonment. The theories under attack, all artificial in their nature, range all the way from the advice to spend instead of save and the doctrine that nominally high wages in idle plants can create purchasing power, to the Farm Board's attempt to stabilize wheat and cotton prices, with a loss to date of $205,000,000 or 64 per cent of the Treasury funds applied to this use, and its recent proposal that one-third of the crop be plowed under.

Conditions in the industries furnish a basis for confidence that, if only the artificial restraints that are cluttering the path of progress and causing staggering losses and untold uncertainty to business were removed, and if executives would think and talk more of Iowa and California and New York, and less of German reparations and sterling exchange, the rank and file of American corporations could follow the way that has already been shown by many of the more aggressive organizations toward increased turnover and earnings through drastic lowering of prices and costs, better advertising and more of it, introduction of improved methods and development of new products.

During the past ten years there has been a steady decrease in the number of banks in this country, which reached its high point of 30,812



Condition of All Reporting Banks in the United States

on June 30, 1921, and was down to 24,079 on June 30, 1930, and to the neighborhood of 22,500 on June 30, 1931. Mergers, voluntary liquidation and suspensions have each contributed to the reduction.

At the same time, as may be seen from the accompanying chart, there has been a steady upward trend in the aggregate deposits, total resources and capital funds.

Ten years ago the "average" (not necessarily the same as "typical") American bank had a capital and surplus of approximately $176,000, deposits of $1,130,000 and total resources of $1,610,000, while today the respective figures would be approximately $430,000, $2,570,000 and $3,180,000. These totals include national and state banks, trust companies, mutual and stock savings banks and private banks.

Liquidation of bank credit has not yet come to an end. Demand for ordinary commercial borrowing is at a minimum. The process of paying down secured loans has been speeded this year by the subnormal volume of new security offerings.

Acceptance Volume Down

A REFLECTION of disturbance in international trade and finance appears in a decline of $140,000,000 in the volume of bankers' acceptances outstanding during July. As reported by the American Acceptance Council the total at the end of the month was $1,228,000,000, or $121,000,000 less than a year ago. Half of the decline, or $70,000,000, was in the classification of goods stored in or shipped between foreign countries, and the total under this heading dropped below 1930 for the first time.

Business recovery might proceed for some distance before there would be any material increase in the demand for bank funds. Low inventories and receivables are shown almost universally on current balance sheets, together with abnormally large amounts in the form of cash and marketable securities. This condition is apparently overlooked by bond investors who have been throwing overboard seasoned issues of corporations that with their own resources and regardless of earnings could maintain interest payments for years to come. Doubtless this attitude is responsible in a considerable degree for the recent weakness in quotations of railroad and industrial bonds, although of course for every seller there is a buyer, and in many cases the buyer is the issuing corporation which is thereby enabled to retire its outstanding obligations at a handsome profit.

Steel Demand Better

OPERATIONS of the basic steel industry held fairly steady during the past month at a low level, and some expansion in schedules is now taking place. The main thing to consider in connection with the steel industry, as with a great many other industries, is that stocks in consumers' hands are very low, and any increase in ultimate distribution is quickly felt all the way back to the mills. Structural steel shipments continue to hold up as the best of all consuming channels. Automobile specifications are being released in larger volume. Rail buying has been much below normal and the under-maintenance of right-of-ways and rolling stock will have to be made up when traffic increases. Demand for oil drilling supplies is small, due to overproduction of petroleum, but this is in part offset by buying for pipe line construction. Tin plate for cans should be in heavy demand as a result of the large crops and low prices of fruits and vegetables.

Automobile output has been held down to correspond with sales during the summer and there is accumulating a replacement demand that will be truly enormous, regardless of whether the so-called "average" life of a car is

considered to be five, seven or even ten years. Probably the automobile would be the last piece of property that the American family would give up, and with production having been running well under the normal requirements of replacement and sales to original purchasers, it is only a matter of time until literally millions of cars will have to be scrapped. Following the introduction of "floating power" by Chrysler, announcement has been made of a new starter that is completely automatic and will engage to start the engine whenever it should "stall" in traffic, going over railway crossings, or in other circumstances, so long as the ignition key is turned on. There is now talk about an air-conditioned car, that will be kept cool in the summer as well as warm in the winter. There are 88,000 refrigerated motor trucks now in service of ice-cream and dairy companies, 93,000 used by the meat packers and 50,000 in the wholesale and retail produce trade. No good reason has been advanced for not refrigerating passenger cars.

Real Estate Outlook

BUILDING construction continues to delay its expected improvement, and the promise that was held forth at the time of the stock-market crash nearly two years ago to the effect that the break in credit stringency would bring a resumption of building seems as distant from fulfillment now as it was then. Much discussion in real estate circles is centered around two adverse factors, the first of which is the timidity of the investing public to buy real estate bonds because of unfavorable developments with reference to a number of issues.

Excessive taxes are the second factor which is coming to be regarded with more concern than ever before by real estate men, property owners and the building construction trades. A number of large cities have been increasing their indebtedness and their tax rates and assessed valuations at a swift pace during the past ten years, and are constantly up to their maximum legal debt limits. Some items in the cost of local government have necessarily increased, but there are probably good grounds for suspecting that in many localities the increase has been caused by nothing more than waste, incompetence, extravagance and desire to increase the number of political jobs. Of course the popular program is for ever-increasing expenditures in the construction of public works and improvements, and anyone who raises a voice of protest is likely to be accused of being "stingy" or "unprogressive." Nevertheless, public officials are naturally inclined to be freer in voting appropriations than are the host of taxpayers, almost unknown as individuals, upon whom the debt is placed.

This does not imply that the outstanding bonds of any of our large cities of good credit standing are in any way unsafe, but it is necessary to bear in mind that there is somewhere a limit to borrowing power. When a situation is kept permanently near its breaking point, it can change from a state of apparent soundness to one of bankruptcy in a surprisingly short time, should there be a temporary shrinkage of revenues or hitch in the collection of taxes or the floating of new loans. Most states specify that their savings banks and trustees may invest in bonds only of municipalities that have not defaulted for a period of years, sometimes as long as twenty-five years. As a result, even a financial crisis that was remedied in a short time might make the bonds of a city ineligible for years and thereby close large markets against these bonds and cause higher interest charges. Local bankers in many cties and towns have done commendable work in keeping their eyes on the purse-strings of public expenditure, as they are well fitted by experience and position to do.

Tires and Gasoline

WHAT was said about the potential replacement demand for automobiles applies equally well to tires. The tire industry has practically resumed its normal output in order to meet the replacement demand. The average age of all tires in use today is probably greater than ever before, to judge from the number of roadside repairs that can be seen, as well as surveys by some of the tire manufacturers. With rubber down to five cents per pound and the price structure stabilized, the manufacturing end of the industry is in a better position for profitable operations than it has been in more than two years.

Gasoline consumption continues to run very heavy. The overproduction resulting from the opening up of vast new fields in east Texas brought low prices and further stimulated consumption. Texas and Oklahoma have now established restrictions upon production, which may be followed by other states.

As a result prices of crude and refined products have recovered moderately. Cheap prices of gasoline are a boon to automobiles and tires, also to the installation of oil heating apparatus in residences and commercial buildings. Gasoline consumption has increased on an average of 12 per cent annually, and while an increment of 12 per cent on the consumption of twenty or thirty years ago would not be large, the compounding of this rate year after year brings the day nearer when the country may be concerned over the shortage of oil instead of the surplus. Just when the balance between supply and demand will occur no one can say with certainty, but an optimistic outlook for the long-term future of the oil industry is undeniably warranted.

Retail Trade Maintained

REPORTS heard from time to time during the past year that retail trade had not slumped nearly so badly as had production are being confirmed by the reports of representative merchandising corporations that have issued their statements for the first half year. The two big mail order houses both showed a marked improvement in earning power, despite a decrease in volume of sales. Sears, Roebuck & Co. net profits were approximately $6,008,000 this year as against $5,618,000 in the first half of 1930, while Montgomery, Ward & Co. reduced their net deficit for the period from $2,503,000 to $1,376,000. Some of the other large organizations which made good showings included the Kroger Grocery & Baking Co. which increased its net profits from $265,000 in the first half of 1930 to $2,316,000 in the first half of 1931; Schiff Company which increased from $151,000 to $223,000; Peoples Drug Stores which increased from $231,000 to $247,000; J. C. Penney Co. which increased from $3,407,000 to $4,212,000; Safeway Stores which increased from $1,711,000 to $2,001,000; Grand Union Co. which increased from $509,000 to $525,000; First National Stores which increased from $1,438,000 to $2,386,000; and Loft, Inc., which changed from a deficit of $261,000 to a profit (before certain charges) of $219,000. Combined earnings of a group of thirty-one merchandising companies increased from $19,291,000 in the first half of 1930 to $22,917,000 in the first half of 1931, or by 18.8 per cent.

As proof that goods can be moved in large volume if the price is attractive, the Great Atlantic and Pacific Tea Co. reported that in the five weeks ended August 1 sales amounted to $95,528,000, a decrease of 1.2 per cent in dollar value compared with the corresponding period a year ago, but tonnage of goods sold during the period amounted to 513,095 and showed a 11.1 per cent increase compared with last year.

In the banking situation, money rates continue easy in the impor-

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The Condition of Business

(Continued from page 166)

tant centers, reflecting the slack demand for commercial borrowing and the liquidation of secured loans already noted.

A number of new bank suspensions occurred during the past month, and one result has been to keep the volume of currency in circulation abnormally high. Many of the closings will not result in any loss to depositors and were brought about for the purpose of conserving assets in cases where losses on loans and investments had impaired the bank's capital.

Gold imports continue to be received, adding further to the strength of the American banking system and enabling member banks to reduce their indebtedness to the reserve banks.

Thrift Statistics

WITH the public in such a timid frame of mind as to avoid the purchase of stocks, and to regard seasoned bonds with suspicion, a huge flow of individual funds into the savings banks has been inevitable. During the past year, deposits of the mutual savings banks in this country increased by $831,000,000 or 9 per cent, and the number of depositors increased by nearly one million. The largest gain was in New York state, whose savings banks hold more than half of the mutual savings deposits in the country as a whole. The amounts due depositors on July 1, 1931, and the change during the year are as follows:

Mutual Savings Bank Deposits

(In thousands of dollars)

State	July 1, 1931	Change 1930-31
California	$86,747	+ $9,164
Connecticut ...	685,283	+ 30,860
Delaware	27,104	+ 1,670
Indiana	24,232	— 84
Maine	117,364	+ 5,040
Maryland	214,027	+ 14,966
Massachusetts.	2,166,270	+ 71,286
Minnesota ...	66,823	— 5,003
N. Hampshire.	174,210	+ 3,042
New Jersey...	271,450	+ 24,684
New York....	5,160,429	+596,215
Ohio	119,114	+ 10,774
Pennsylvania..	526,786	+ 61,478
Rhode Island..	180,476	+ 8,302
Vermont	91,365	— 3,214
Washington ..	57,521	+ 2,498
Wisconsin ...	7,768	— 603
Total U. S...	$9,976,968	+$831,076

These figures do not include stock savings banks, whose deposits are only about one-tenth as much as those of the mutuals, nor the savings, thrift or compound interest accounts in national or state banks and trust companies.

The Story Told by a Picture

THE full-page drawings by Walter de Maris which appear each month in the JOURNAL continue to arouse wide interest. One letter, written by H. B. Mauk, cashier of the Melbourne State Bank, Melbourne, Fla., expressed appreciation of Mr. de Maris' analytical keenness and accuracy as displayed in the sketch on the moratorium in the August issue.

"The clever artist who made this sketch," says the letter in part, "undoubtedly drew the well-proportioned and highly spirited horse as representative of the American people, the rider none other than those who happen to be in authority. This faithful horse has never balked or shied; nor has he ever failed to carry the load put upon him by his master. But what horse, no matter how dependable or how loyal or devoted to his master, will go to the edge of a great precipice without considerable urging and spurring? Is it not a fact that horses become more or less unruly when forced into extremely dangerous places? And what usually happens when the animal becomes frightened and uncontrollable?

"I read in this sketch, also, the possibility of horse and rider being carried into the abyss when the cliff crumbles. The weight of the rescued man together with the added pressure of the heavy horse, and horseman could possibly cause the edge of the rock to break off.

"The rope may not break, the rock may not crumble, the horse may hold steady and the rescue may be complete, but was there not too great a chance taken of aggravating the strong, somewhat high-strung animal to the point where he might become so panicky and uncontrollable that all three would be plunged headlong to the jagged rocks below? Then it would be too late to be of much use to the world, financially or otherwise."

The writer concludes with the forecast that the American people will demand on the part of their leaders "caution along with bravery, discretion instead of imprudence and security in place of reckless exposure."

It Pays to Study the Market for Trust Service

(*Continued from page* 131)

bank or trust company would, in so far as legally permissible, turn over to the new company all the trust business it already had. Each would receive its proportionate part of the profits in the form of dividends on its stock. The new trust company would immediately command the respect of the whole area. It could afford to install the best equipment and employ the best talent. It would offer as fine a quality of trust service as that offered by the best trust departments anywhere.

This suggestion of organizing companies to engage in trust business only is supported by both precedents and advocates. In England the most active trust corporation is the Midland Executor and Trustee Company which, as a subsidiary of the Midland Bank, is engaged exclusively in trust business. In this country any number of banks have trust company affiliates. If one bank may own and operate a trust company, there is no reason why several banks in a given trade-area, acting together may not do the same. Col. F. H. Fries, late president of the Wachovia Bank and Trust Company of North Carolina, said only last year: "The last and most advanced step among the larger institutions is to have the trust business handled in a separate company, correlated by a connected stock-holding, which holds the various interests together but forces the administrations apart. . . . The successful trust companies of the future," he continued, "will undoubtedly be those in which trust business alone will be conducted."

If the Field Is Barren

WHAT is to be done if the survey shows that there is not and is not likely ever to be enough trust business in the area to support even one trust department? The answer is—do not establish one. I repeat, a bank or trust company is not justified in establishing a trust department unless it can be made to pay. The comparatively few men with liquid estates in such areas who need trust services may have to appoint individual executors and go outside their area to absentee trust departments to administer their trusts. It would be better to put a few such men to inconvenience as regards their estates and trusts than to put a host of stockholders to loss maintaining a trust department that will not pay.

What I am suggesting is that the

bankers of our country take a broad-minded, statesmanly, forward-looking view of the trust business. There is no branch of finance in which such a view will be more resultful. We are still in the early stages of trust business. We may do prospecting and pioneering in the trust field now that a generation hence, after trust departments have been permanently though, perhaps, unwisely established, will be practically impossible. If we approach trust business now in a broad-minded, statesmanly way, with due regard both to the public and to our stockholders, we shall be able in good time to make trust service amply statewide in its reach and reasonably profitable in its return.

Where Small Merchants Borrow

(*Continued from page* 133)

they are not the only ones. Strange to say, the pawnbroker plays considerable part in financing small business. Pawnbrokers frequently carry surplus stocks of jewelry merchants, or small manufacturers of gold and silver products. Many pawn loans are made against wives' jewelry to finance the week's inventory of fish, vegetables or fruit for curb markets or small shops. By the end of the week the merchandise will have been sold and the jewelry redeemed in time to be worn to the synagogue.

In Philadelphia, many non-legal corporations have been formed to make small business loans. To avoid the criminal penalties of the small loan law, all loans are for more than three hundred dollars. They write checks for the face amount of the loan and take a sizable discount when the check is cashed in order to make defenses of usury difficult.

Still another group of small finance companies purchase instalment or open-book accounts. Values are discounted heavily, but the merchant is still liable for any shrinkage in collections. While these transactions have the same effect as a loan against accounts receivable, this method of financing avoids questions of usury by the claim that the transaction is an actual sale of property.

Advances by Wholesalers

CREDIT from this secondary banking system is not used in the same way that bank credit would be used. It is less flexible than bank credit. It is more expensive. As a result, it is largely emergency credit. Wholesalers and equipment manufacturers are furnishing the flexible credit needed by small business men.

The amount of cash needed for going into the grocery business as evidenced by Department of Commerce studies of the industry, was surprisingly low. Counters, coffee grinders, ice boxes, scales, cash registers could be bought on the instalment plan. Shelves could be stocked by wholesalers with liberal extension of payment dates. When small merchants fail, the wholesaler is usually holding the bag very heavily. But the wholesalers have protected themselves by adding a credit cost to their price to compensate for these losses.

The financing of the small merchant is just as much a banking function as financing the very large one. Banks still need credit customers, and small merchants need bank credit. Why, then, have banks passed up this business? Is it because these loans are naturally more risky than those which the bank still makes? Not at all. The bad-loan ratio of well-run credit unions and loan and investment companies is no higher than the loss experience of banks.

The difficulty lies in the cost of investigating, making and collecting loans in small denominations. Small loans have always been expensive to make. But the expense has increased with higher wages, higher taxation, more elaborate accounting and control. Analysis of the profitableness of each bank service through cost accounting technique has brought the cost of individual transactions under the microscope. Most attention has been given to checking accounts because something can be done about unprofitable accounts. Service fees can be charged, the number of checks which may be drawn may be limited. The same scrutiny consciously or unconsciously is being applied to small loans. But less can be done about them.

Law Fixes the Rates

THE reason is that, unlike any other commercial business, money lending is subject to state price fixing. The maximum charge which a lender can make is fixed by most states at 6, 8 or even 10 per cent a year. Although special permission to charge higher rates is frequently granted to some banking institutions, commercial banks are generally limited to a maximum fixed by the law. Even the device of requiring deposit balances against loans has its limits and stops short of making small loans profitable. Unlike checking accounts, no additional service charge may compensate the bank for high costs.

As a result, customers whose loans are not profitable at the legal maximum are asked to find other sources of credit. And the price of credit to these borrowers immediately jumps considerably. If a credit union is available, his borrowing rate is 13 per cent; if he deals with a chartered industrial bank, the rate becomes 15 to 20 per cent; if an axia, 15 to 30 per cent; and if an individual, from 25 per cent to an almost limitless maximum. Wholesaler credit is also expensive if the difference between credit price and the price available by judicious cash buying is compared.

"6 Per Cent."

THE usefulness of usury laws is limited solely to contracts where the ignorance and utter necessity of the borrower lead him to make ruinous contracts for the sake of present relief. Denouncing the usury laws is a very old pastime. Jeremy Bentham began it years ago and wrote a brief for usury that remains a classic in economics. But the inhibitions regarding interest charges are grounded more deeply than law itself. There is a general fixation of the idea that 6 per cent is a fair charge for the use of money regardless of the size of the

loan, regardless of the risk, collateral, liquidity and the expense of making and collecting the loan. Such a fixation is as damaging to business as the discarded church dogmas against the taking of any interest whatsoever.

That the moral pressure toward maintaining the 6 per cent interest maximum in costly loan contracts is gradually weakening is evidenced by the establishment of personal loan departments by many banks at higher than normal interest rates. Bank credit is going begging. There are not enough users of bank credit who can meet the requirements. Sooner or later, through the sheer necessity of finding credit customers, banks may swing back to financing small merchants at higher interest rates. When this time comes, both banks and small merchants will be better off.

Mexico Tries Managed Currency

(*Continued from page* 154)

possible, are questions which might be answered only by conjecture.

Effect On Silver Industry

WHAT effect will this measure have upon the value of silver? If Mexico is able to adhere to the high resolutions expressed by her finance minister, nothing will happen immediately. The maintenance of the value of the silver peso will require, for the time being, an absolute prohibition of further issue. There will be no additional demand for silver and the effect on its value will be negligible. If the Mexican experiment in managed currency is successful, the silver industry cannot hope to find in it any relief for its own depression. However, if the high-minded aim of management cannot be realized, the other alternative is a straight silver standard. Such an eventuality would add a vast field of usefulness to silver and will serve to raise its value.

The internal effect of the adoption of a silver standard would not be serious; on the other hand, it might be distinctly stimulating. It will cause prices to rise, and reduce the domestic costs of exportable products and increase their salability in the markets of the world. Mexico may well manifest all the symptoms of prosperity. The shield has a reverse side. Imports will decline and the domestic price of imported goods will rise. Foreign obligations will harass Mexican finance ministers as never before. Most important of all, it will tend to discourage foreign investment in Mexico.

Bond List Must Fit the Bank

(*Continued from page* 149)

a bank. Perhaps many will feel that this factor should be more properly classed among the general financial factors, because it appears to be beyond the power of any individual bank to influence this matter to any appreciable extent. Experience has shown, however, that the individual bank does have more control over this matter than is commonly supposed. It has been found that a bank can cut the rate paid on time deposits when surrounded by banks maintaining a high rate, and profit thereby. The taking of a conservative position like this, especially when it is presented to the public as such, and the way in which it protects them is explained, actually becomes a strong argument for depositors to increase instead of decrease their deposits in such a bank. This is not a theory; its practicality has been demonstrated. The effect of a change of this kind on the purchase of securities for the investment account of a bank is evident.

Important But Neglected

THE first group of factors controlling the purchase of bonds by a bank is made up of those elements, which exist within the bank itself. Only a few of them have been mentioned, and the method to be employed in ascertaining what they are and their effect on the purchase of bonds has only been outlined. They are, however, the most important factor in dealing with the problem in question, and yet they are the factor to which, in general, the least attention is given.

The second group of factors, namely, the factors involved in the several issues of bonds, has received relatively a good deal of attention. Bond analysis, as an art, if not as a science, has been accorded much attention during recent years. Its importance in the purchase of securities by banks has been emphasized to them with increasing force and frequency during recent months. There is no question, also, but that the analysis of securities whose purchase, retention or sale is being considered, is of far-reaching significance in arriving at a sound conclusion. It should be remembered, however, that any analysis of this kind is of little value to the bank until the bank has had its own secondary reserve and investment position analyzed, policies for both of these accounts established and programs planned to make possible the realization of the policies. Until this is done, any information secured concerning bonds actually in the portfolio or which are being considered for it alone does not make it possible to ascertain whether the bonds are suited to the needs of the bank, since these bonds cannot be judged without the analysis indicated.

The Next Step

WHEN the policies and programs have been established, however, the analysis of the securities at once assumes the place of importance. It at once becomes apparent that there are two sets of factors in connection with an individual issue which require consideration: (1) The credit factors, and (2) the market factors.

In the past the emphasis has been laid principally on the former—on the credit factors—although the millions of dollars of defaulted bonds and bonds

which are in serious danger of default now held by banks, furnish clear evidence that safety has been stressed insufficiently as a factor in the purchase of securities. One of the most difficult phases of the present situation is the large number of such bonds in the portfolios of the banks. They clearly should not be there. Is it, however, wiser for the bank to sell at existing prices, taking a heavy loss, and establish its secondary reserve and investment accounts on a sound basis, or to hold these bonds in the hope that their situation will improve? Obviously, this is a question which cannot be answered off-hand. In fact, even if a definite knowledge of the exact credit position of the securities in question were available, it would be impossible to answer it without knowing the position and the requirements of the bank itself.

The need for ascertaining the probable safety of bonds is evident. Methods of credit analysis have been discussed at considerable length in various books and are readily available, and hence consideration of them may properly be omitted after calling attention to their importance in the solution of the problem in hand.

Marketability

THE significance of the market analysis of bonds has received less consideration than the credit analysis. The market analysis of securities may be divided into two parts. The first involves a study of general market price trends and the reasons therefor. Hence it properly belongs in the third major group of factors, namely, the general economic and financial situation. The second involves the study of individual security prices, and is of marked practical importance from the standpoint of the bank, in pointing out the actual markets for securities. At the present time, when bid and asked prices are largely nominal, it is essential to know how many bonds the market will take without causing a sharp price movement, and who are the brokers or dealers who are actally making the markets for individual issues of securities.

As a further step in the same direction, it is desirable to call attention to the fact that the control of the bond portfolio of a bank, or any part of it, is not made effective until the actual transactions which are indicated as necessary are actually effected. Banks have lost heavily in many instances because of failure to act promptly on decisions wisely reached. The effecting of purchases and sales of securities is one of the most important factors in the control of the secondary reserve and investment accounts of a bank.

And now we come to a brief consideration of the third group of factors, the general economic and financial elements in the situation. These are, of course, basic in character and effect in many different ways, the position of the individual bank, the position of individual issues of securities and the relationship of one to the other. The period of economic prosperity, since followed by one of depression, has had a marked influence on the amount and nature of the deposits of many banks. The same may be said in respect to the loan accounts of banks. The change in interest rates which has made the problem of the rate of interest paid on securities so acute is predicated on altered economic and financial conditions in the world at large.

Money Rates

THE credit position of many bonds has been affected unfavorably, very largely because of the difficulties encountered by the issuing corpora-

tions brought about by the depression. The major factor in determining the time to buy and sell securities is found in the rates of interest—on both short and long term obligations—and these rates of interest are controlled by general economic and financial forces, not only in the United States, but in other countries.

In studying the position and trend of the bank itself, of the credit and market position of securities, it is necessary to focus these factors against the background provided by the economic situation and trends of the moment and of the future. It is dangerous and frequently disastrous to try to fight against economic forces; it is safe and profitable to take advantage of them. This means, however, knowing and understanding them, and this necessitates studying them.

The large holdings of securities at the present time on the part of banks, especially of country banks, mean that the control of funds in this form is one of the major problems now confronting bankers. An analysis of business developments indicates that the holding of securities by banks, both absolutely and relatively, is likely to show an upward trend in the immediately succeeding years, until some major change in banking methods not now visible begins to make itself felt. Since this is the case, it is necessary for bankers to study this whole problem as they have not heretofore done; to approach it in a scientific, yet wholly practical fashion, and hence to begin by a thorough study of the factors which control their bond portfolios.

Is Germany So Helpless?

(*Continued from page 146*)

year has been the chief cause of the embarrassment of the German people this flight of German capital has been scarcely less influential and much more damaging to German financial morale and prestige. It is not without compelling reason that a condition precedent for foreign help for Germany laid down by the conference of representatives of other nations at Paris and London was that Germany should take immediate and effective steps toward stopping this outflow of German funds to other countries.

Europe's Investments Abroad

IT is evident that the withdrawal of foreign short term funds in the United States in the past year has been largely on account of Germany to enable the latter to meet short term demands upon it while the increase in American short term advances abroad also has been largely on account of Germany, especially previous to the crisis though there was a period several months ago when this was probably not the case. Both of these movements run counter to the whole trend of short term financing in the United States and abroad since the immediate post-war period and up to the closing months of 1929 and form a measure of European financial needs and of American effort to extend relief where it was required. At the same time the international movement of short term funds into and out of the United States presents the curious anomaly that while European nations — not only Germany but practically all other countries except France—need long term funds and take short term funds largely as substitutes for the long term credits they really require, they possess bank deposits and other short term funds in the United States far in excess of America's holdings of such funds in Europe. In fact if Europe's holdings of both short term and long term funds in the United States were applied where needed at

home there would be no occasion for seeking funds from the United States. If Germany's holdings of foreign capital investments, estimated at the equivalent of $2,000,000,000 at this time, were applied to the situation in Germany the latter country would have no occasion to ask foreign assistance in meeting the financial crisis in which it now finds itself.

Also Long Term Holdings

WHILE the international ebb and flow of short term investments in general measures the acuteness of the German and general European situation it is only one factor in the situation. No proper appreciation of the situation of Germany and other European countries in this respect can be had without consideration of foreign holdings of American long term securities. Not only has the international position of Germany been affected by German long term investments abroad but the position of other European countries also is involved. Much of the weakness of European exchange rates as measured by the dollar in the past few years has been caused by the steady increase of foreign holdings of American securities which has taken place in spite of adverse exchange and in spite of the financial needs of the European countries involved.

In the past ten years foreign purchases of long term securities in the United States have exceeded resales by about $2,000,000,000. Even in 1930 when foreign exchange rates were generally so adverse, foreign demand for money so keen and American security returns so low foreigners increased their holdings of American securities by over $100,000,000 net. Just what part Germany had in this trade is unknown but it is known to have been considerable. It is not to be contended, of course, that all these foreign holdings can be used for adjusting foreign needs at the present time or even that German holdings of American securities or German deposits in American banks or holdings of short term investments in this country can or should be used to relieve the Fatherland. But with such investments in this country and in other countries it is plain that the international authorities in conference at Paris and London were on firm ground when they insisted that Germany do something with its foreign holdings to help itself before further loans from abroad could be anticipated.

However great or little part Germany may have in the movement it is at least certain that Europe as a whole demonstrated considerable investment strength in its relations with the United States last year. In addition to the large increase in the repurchase of its own dollar bonds mentioned above it not only failed to draw upon its previous long term in-

	American Securities Sold to Foreigners	American Securities Bought Back from Foreigners	Net Purchases by Foreigners	Resales Per Cent of Sales
1930	$941,000,000	$833,000,000	$108,000,000	87
1929	1,585,000,000	1,078,000,000	507,000,000	68
1928	1,503,000,000	1,015,000,000	488,000,000	67
1927	861,000,000	661,000,000	200,000,000	77
1926	636,000,000	509,000,000	127,000,000	80
	$5,526,000,000	$4,096,000,000	$1,430,000,000	

vestments in the United States but, as above indicated, increased them and it is known that at least a considerable part of this new investment came from Germany. The transactions in American securities for foreign account as shown by the annual canvass of the Bureau of Foreign and Domestic Commerce for last year and the previous four years were as shown on page 177.

Foreign purchases of American securities involve no public offering of American stocks or bonds in other countries and are therefore confined to purchases in small lots. A large proportion of these purchases are on margin for speculative purposes with the result that the turnover is far larger than actual investment and the proportion of "returns" of these purchases has always been very large. The total turnover of foreign dealings in American bonds in 1930, as might be suspected from the smaller volume of total transactions on American exchanges, was much smaller than in the two years of high speculation immediately preceding and the percentage of resales highest in five.

It is to be expected, of course, that foreign purchases of American securities in general will rise and fall with the volume of transactions on American stock exchanges. Naturally foreigners are disposed to share in American prosperity when we have any and are disposed to avoid participation in American depression when we are in the midst of depression. To a large extent the reduction in total turnover indicates a progressive elimination of speculation in the transactions. The increased proportion of resales to foreigners in 1930 also doubtless represented considerable liquidation of speculative holdings acquired in the previous two years.

More Than $500,000,000

THE fact remains, however, that during 1930 foreign holdings of American long term securities increased by over $100,000,000 net and this increase in the face of liquidation of previous speculation represents more than ordinarily permanent investment. Including their increased purchase of their own dollar bonds foreigners last year sent more than $500,000,000 for investment in long term securities held in the United States in the face of adverse exchange, adverse gold movements, low interest rates in the United States, and an insistent demand for both long and short term funds from the United States. Of course there is always a large amount of such investments in the United States from abroad but under the special circumstances and in view of current conditions in Europe the investments of last year and especially the increased investments in some lines are significant. Germany has had an uncertain but undoubtedly a material share in the movement and much of the estimated flight of $250,000,000 of German capital abroad in the past ten months has gone into long term American securities.

There is no doubt that most of the financial troubles of Europe at the present time are due to a lack of capital following the wastage of war and this is true preeminently of Germany. But there is also no doubt that taking Europe as a whole, even with the elimination of France as the strongest financial power in Europe, most of these troubles could be avoided or at least minimized with the capital Europe now possesses if the latter were properly concentrated and managed and if, above all, there were that mutual confidence among the powers which is the foundation of all financial dealings. Better political relations between the powers as well as more stable political conditions in

Germany are prime requisites for any improvement in the German or general European financial situation.

Another prime requisite for recovery in Germany is German confidence in Germany and the German people. The situation in that country at the present time is largely psychological. Germany has large resources abroad which can and probably will be assembled much in the same manner as Great Britain assembled the overseas holdings of the British people to support its purchases in the United States during the war. That the general situation will be immensely improved if Germany's present short term obligations can be funded into long term loans is quite apparent but the essential requirement for such a loan is renewed confidence in Germany not only on the part of the world at large but on the part of the Germans themselves. In limiting their assistance to Germany at the present time to the suspension of reparations payments and the continuation of short term loans the representatives of the powers at London and the committee of bankers at Basle have merely followed the dictates of common sense. The next move must come from Germany.

America's Gold Business

(*Continued from page* 140)

In the matter of assaying, from every parcel of bullion, several portions, usually three, are taken. These, after analysis, are returned upon completion of the assay.

Waste Carefully Avoided

THE assaying, melting, and refining of gold are conducted by the Treasury practically at cost, and in this respect the various mints and assay offices are self-sustaining. A very small amount of gold, naturally, is lost in the process of treatment. But no effort is spared to prevent such loss. None the less, the sale of sweepings to outside bidders results in some profit to the bidders; an unavoidable but small loss to the Treasury. The floors are carefully swept and much "value" is recovered. The workingmen's clothes are incinerated with the same object, the water they use to wash their hands, and even the fumes drawn from the crucibles are searched for gold dust. And the search has its rewards. Formerly, the smoke which escaped from the assay office on Wall Street scattered gold particles over the unsuspecting throngs below. It has been found profitable to recover this gold. Another source of revenue is from the metals like platinum, copper, palladium, and iridium—by-products of the refining process.

While the larger smelters and refiners in the United States refine their own bullion, only a small portion of our gold output leaves the country in the form of such bars. Most of it is presented to the assay offices or mints and exchanged for gold certificates or Treasurer's checks. The mints, in addition to coining, conduct the other operations, mentioned in this article, assaying, melting and refining. The assay offices of course, do not strike coins or medals.

Gold refined by the Government is usually 0.999 fine. So-called "four nine" gold bars, 0.9999 fine, are manufactured in small amounts only, as required by the trade. It is impossible to manufacture gold bars 100 per cent pure gold. There are always some impurities present, usually copper or silver remaining from the electrolytic process. The finest gold found in nature is believed to be that obtained as nuggets in British Guiana and Venezuela. This gold is usually 0.925 to 0.960 fine. In the United States, in the Rockies, placer gold approximately 0.900 fine has been found, although 0.800 to 0.900 is the usual fineness.

What To Do When Drainage Bonds Default

(*Continued from page* 162)

old well established farming communities where the improvement consists mainly of surface drainage and where the land is too valuable to let it sell for improvement taxes. It is reasonable to suppose that a majority of these districts will be able to bring their delinquent payments up to date if only we have a few normal seasons in succession. In dealing with this type of district a little patience is all that is necessary. In some instances it may be necessary to reduce the amount of annual payments for a few years.

In the second class are those districts whose difficulties go far deeper than adverse seasons and agricultural depression. Adverse seasons and general agricultural conditions are the immediate causes of default, but the fundamental causes are more responsible for default. One of the fundamental causes is too much unproductive land. Where districts have a large proportion of undeveloped land, such as cut over timber lands for instance, they have had to acquire much of it through tax foreclosure.

Expensive to Hold

PRESENT agricultural conditions make it unprofitable for landowners to clear the land of timber and pay the cost of drainage improvement. Some districts have come into possession of large tracts of cut over timber lands. Under present conditions it is impossible to sell these lands. The problem is intensified by the fact that these lands are often assessed at high figures, by the county and state. If the district continues to hold these lands it must keep the county and state taxes paid, as these taxes constitute a prior lien to those of the district. Some districts have been successful in persuading county authorities to reduce the assessments on these lands to a point where either the district can afford to carry them for the benefit of the bondholders, or where they will be attractive to purchasers. If the taxes are reduced to a low enough figure, it may be possible to interest purchasers who would acquire the land and develop it. Drainage districts could well afford to remit all delinquent taxes against this land and make a present of it to anyone who would develop it and pay the balance of benefits assessed against it. The state and county, too, could well afford to remit all delinquent taxes.

It is far better to have someone on the land paying nominal taxes than to be collecting no taxes at all, not to mention the larger benefit to the community of having the land settled and made productive. Attempts to colonize large tracts of this undeveloped land have not generally been successful. Its ultimate disposition presents quite a speculation. If the districts can get the state and county taxes reduced to a low enough figure they may be able to carry it for the benefit of the bondholders. Within ten or fifteen years we may again enter a long major swing of rising prices in agricultural lands, similar to the period of 1900 to 1920, when land of this type will again have a speculative value. This land could then be sold and the proceeds paid over to the bondholders.

Several Possible Steps

IN most instances where districts have basic difficulties, a financial reorganization is advisable. If the district contains large areas of non-

productive land it may be necessary for the bondholders to write off a considerable loss if the reorganization is to succeed. One plan would be to make the amount of the refunding bond issue equal to the total assessed benefits against the productive lands. The district can, of course, continue to hold title to lands which it has acquired through tax foreclosure for the benefit of the bondholders.

A number of things may be done to assist districts to get back into sound condition. The whole debt may be refunded in such a way as to take up all delinquent payments in the new loan. Bond maturities may be extended over a longer period of time so as to reduce the amount of annual installments. Interest rates may be reduced. It may be better for the bondholder to take a reduction in the rate of interest than to take a loss in principal. The important thing to keep in mind is to make the annual installments small enough so that the landowner can meet them. The annual payments required must be within the productive capacity of the land. This is just as important for the bondholders as for the landowners, for if this is not recognized, further readjustment will have to be made later on.

Federal Aid

ANY discussion of the present condition of drainage and levee districts would be incomplete without reference to the efforts that have been made by landowners to secure assistance from the Federal Government. During the last two sessions of Congress a bill has been sponsored by the National Drainage Association to provide for the aiding of farmers by the making of loans to drainage and levee districts. Under this plan districts which are unable to meet either principal or interest on their outstanding bonds may refinance their undertakings by the issuance of non-interest bearing refunding bonds; such refunding bonds to be accepted by the United States Government as security for loans sufficient to retire outstanding bonds as they mature and the accumulated interest thereon.

The bill would provide for a revolving fund of $95,000,000 from which the Government would make loans to drainage and levee districts, provided that not more than $19,000,000 would be available in any one year. A sinking fund would provide for a sufficient sum to retire the refunding bonds at maturity. During the last session of Congress this bill was passed by an overwhelming majority in the Senate and was recommended to the House for passage by a unanimous vote of its committee on Irrigation and Reclamation. Without doubt the bill would have been passed by the House, also, except for the legislative jam in which it was caught near the end of the session. It will be presented again probably at the coming session of Congress.

Savings Conference Addresses

THE Savings Bank Division of the American Bankers Association has published a group of booklets containing important addresses delivered before the Eastern Regional Savings Conference in New York last March and before the Mid-West Regional Savings Conference at South Bend, Indiana in May. The addresses are classified according to subject and include discussions of mortgages, bonds, public relations, problems of promotion and successful management.

A. B. A. Convention Will Discuss Service and Profits

(Continued from page 161)

The Economic Policy Commission has continued its investigation of the causes of bank failures and other matters of dominant interest to bankers, particularly the relationship of state and national banking systems and the question of branch, group and unit banking. The report made last year at the time of the Cleveland convention has been augmented by additional facts and findings which will further clarify the position of the Association on these issues.

Entertainment

THE entertainment program, it now appears may establish a record for variety, because the entertainment facilities of Atlantic City are exceptional. In view of the heavy schedule of work facing the delegates and the prevailing note of serious purpose, a complete entertainment program ought to contribute to the success of the convention.

A few of the events have been arranged, some definitely and others tentatively. In addition to the pipe organ recitals mentioned before, which Karl Bonawitz will give preceding each of the general sessions, there will be special orchestral programs in all of the city's leading hotels. On Monday afternoon, according to present arrangements, there will be a motor tour for ladies through Atlantic City, Chelsea, Ventnor, Margate and Ocean City, followed by a reception at the Sea View Country Club. A fleet of special buses will leave the boardwalk at Park Place at three o'clock.

On Tuesday afternoon the ladies will be entertained at the Yacht Club. Buses will take them from the hotels to the club. One feature of the afternoon will be a yacht trip and those who go are promised music and entertainment aboard. For Tuesday night an event of special interest is being arranged but it is still too early to include a definite announcement in this summary.

Efforts are being put forth to make the style show this year a memorable event. For one thing it will have the benefit of an unusual setting at one of Atlantic City's large indoor pools. Along with the display of all that is new and attractive in feminine fall fashions, there will be an exhibition of expert diving and swimming, together with a musical program. The style show probably will be held on Wednesday afternoon. Wednesday night is the occasion of the grand ball. It will be an event of unusual brilliance. The place will be the grand ball room of the Municipal Auditorium and the time will be nine o'clock. The entertainment program during the ball will include dancing by a professional team, a Nantucket or Paul Jones, and several other special features.

Friday is the day for golf. Competition will follow the usual rules and all entries will be required to register by six o'clock Wednesday evening so that the order of starting can be posted on Thursday.

Other events are being considered for inclusion in the program but are not yet in a form that is definite enough for an announcement.

Railroad Routes

TRANSPORTATION to Atlantic City will be facilitated by several special trains, some of which have already been announced. A Falltonic Special will leave Chicago, Oct. 2 at 11.30 p. m. Central Standard Time from the new union station at Canal and Adams Streets. This train will reach Pittsburgh at 11.00 a. m., Oct. 3 and remain there until 11.30 that night, permitting delegates to enjoy a one-day program of entertainment arranged by a special committee of Pittsburgh bankers. Luncheon will be served at the William Penn Hotel and the events of the afternoon and evening include an inter-university football game, golf and the theater. Motor car transportation will be provided by Pittsburgh bankers. A number of delegates from states west of Chicago have indicated their intention of making connection with this train.

A Kansas-Missouri Bankers Special has been arranged for the accommodation of delegates from Kansas City via St. Louis, arriving in Atlantic City on Sunday, Oct. 4. Arkansas bankers are planning to join this train at Kansas City.

The Central Passenger Association has allowed low rail rates with a wide choice of time and route for the return trip and similar arrangements are expected to be made by other passenger associations.

Round trip tickets will be sold from the central area at the rate of one and one-half fares, on the identification certificate plan, between Oct. 1 and 7, with a return limit of Oct. 14. A ticket good for thirty days will be available at the rate of one and three-fifths fares. Delegates from the Pacific coast can save by obtaining summer tourist tickets to Chicago, then purchasing a round trip ticket between Chicago and Atlantic City on the identification certificate plan.

Canada Prepares for Revival

(*Continued from page* 137)

ties that production for 1931 as a whole will have a value of at least $50,000,000, while at the same time ore reserves will have been enlarged and the general position of the industry greatly strengthened. In fact, the major gold mining area, that of the province of Ontario, is one of the brightest spots on the commercial map of Canada and, according to a leading American authority, is the most likely for the discovery of new sources of gold.

New Metallurgical Industry

THIS discussion of Canadian mining would be incomplete without reference to its companionate industry, metallurgy. In the past practically all non-ferrous base metal mined in this country was exported in crude form, but a few years ago an important addition to metallurgical capacity was undertaken. This program has been completed within the last eighteen months, and Canada is now in the front rank of that small number of nations which account for the great part of the world's supply of smelted and refined metals. Taking copper as an example of what has recently been accomplished, there is now a refining capacity in Canada of 200,000 tons per annum, twice the mine production of 1928, which was sold mainly in its crude state.

The recorded dividend payments by Canadian companies in 1930 were approximately $250,000,000, as compared with $219,000,000 in 1929, but again a qualifying note is necessary. Heavy financing in earier years placed increasing quantities of corporate securities with the public, on some of which initial dividends were paid in the first part of 1930, prior to the time when the full weight of world depression was felt. Furthermore, certain companies maintained prosperity dividend rates by drawing upon reserves. Perhaps it goes without saying that, with a wholesale price decline of 23 per cent and with a much restricted world market, Canadian business has suffered a greater loss in earning power than in production, and that this loss is only now being registered in dividend rates. Capital reorganization has also become necessary in some cases, the most noteworthy being that of one of the largest units of the newsprint industry, the plan for which provides for the writing off of about half of a capital of $100,000,000.

A reduction in tax-paying power and calls for unemployment relief have caused a strain on government treasuries; the Dominion Government, for instance, closed its fiscal year on March 31 with a deficit of roughly $80,000,000, and in an attempt to balance revenue and expenditure has imposed higher taxation, a wise alternative to fresh borrowings with which to fund its entire deficit. Yet the National Industrial Conference Board of New York in its recent study, "The Major Forces in World Depression," states that Canada has no special financial difficulties, and that the soundness of the financial structure and the relative absence of political difficulties make the prospects of an economic revival more promising than in most other countries.

This necessarily brief account of Canadian business touches only upon the most important developments, favorable and unfavorable, of the past two years, but perhaps it is clear that this economic storm has left no great mass of wreckage in Canada. If the autumn of depression has been reached and the springtime of revival is close at hand we shall see before long that the Canadian field is fertile in opportunity for progress.

Profits in American Industry

(*Continued from page* 135)

"statement forms" that would look A-1, but would be completely false, hence the necessity of having also a copy of the statement certified by the auditor. On the other hand, an audited balance sheet without the profit and loss statement may be equally misleading.

Last year the majority of concerns apparently determined to clean house and to take their losses, but others, in an effort to make a good showing and make it appear that dividends were being earned, skimped on their depreciation and failed to write down inventories and to charge off doubtful accounts. Non-operating and non-recurring profits should always be shown separately.

Some companies reported a "net profit" from operations last year, but made heavy charges direct from surplus account. Where capital and surplus accounts are combined to represent no par value stock, this device is especially difficult to detect, and it opens the way also for secret sales or purchases of capital stock between the corporation and its directors and officers. The fact that no tax liability is usually set up for such "profits" will put the party using such a statement on guard.

Recovery After 1921

ONE frequently hears the statement from economists that "the country will eventually recover from the current depression but the recovery will be very slow." Such a statement, made at a time when evidences of unemployment, curtailed operations, wage and dividend reductions, receiverships, etc., are visible on every hand, may sound most plausible, but before it need be accepted as true three other facts might be considered:

First, the statement itself is mere prophecy. In the world's known history of at least 7,000 years the gift of prophecy has been given to very few people, and it is not certain that any of the present day economists are numbered among the select few.

Secondly, reference to newspaper files for the summer and fall of 1929 will reveal quotations from these same forecasters that "there is no cause for slump," "credit stringency is only temporary," "brokers' loans do not constitute money withdrawn from industry," "high prices of stocks have not yet caught up with real values," and others.

Also, there is evidence, not in theory but fact, that recovery in profits after the 1921 depression was extremely rapid. The greater part of 1920 witnessed large profits, and most industries, except leather and rubber, were not genuinely hit by the slump until 1921, when they were hit severely. In 1922, however, there was an emphatic recovery that carried most groups up to approach or even surpass the level of 1920. Following are the figures for the three years as reported to the Treasury Department:

Corporate Net Income, Less Taxes and Deficits
(In Millions of Dollars)

	1920	1921	1922
Foods	$130	D $56	$247
Textiles	170	71	394
Leather	D 58	D 61	53
Rubber	D 9	D 97	15
Lumber	215	D 61	137
Paper	165	D 12	52
Printing	107	70	140
Chemicals	247	D 4	341
Stone, etc.	106	31	94
Metals	981	D 314	526
Misc. Mfg.	282	D 36	241
Total Mfg.	2,337	D 473	2,251
Mining	351	D 261	D 25
Construction	52	2	30
Pub. Util.	580	397	663
Trade	379	D 151	588
Service	85	40	72
Finance	520	300	391
Miscel.	D 76	D 54	D 1
Total	$4,248	D $274	$3,986

D—Deficit.

These figures show the recovery in 1922 in more detail than does the chart of the general trends which appears at the beginning of this article.

No inference whatever is herein implied as to what the level of profits may be following the depression of the current year, but the figures would

seem to prove at least that any prediction that recovery of American business will be a long-drawn out process may be true, or again it may not.

The Duty of Corporate Trustees

(Continued from page 141)

"There is no rule of law which compels the court to hold that an honest trustee is liable to make good loss sustained by retaining an authorized security in a falling market, if he did so honestly and prudently, in the belief that it was the best course to take in the interest of all parties'. (Per Lopes, J., in matter of Chapman, supra, at p. 776.) It cannot be said that the trustee was negligent in the sense that it was inattentive to its duty, or ignored the question whether a sale of the stocks was advisable or otherwise. The securities of the trust were examined and considered by a committee of the trustee's directors at least once in every six months. This committee was composed of distinguished financiers, members of the New York Stock Exchange, lawyers and others of note in business circles. It was their judgment that the stock should not be sold. They consulted Henry Clark, a brother of the testator, and first vice-president of the Cuban American Sugar Company, and it was his advice, given as late as 1928, not to sell. They consulted Horace O. Havemeyer and William O. Havemeyer, well-known figures in the sugar trade, and received the same advice.

"True, the trustee, in a written statement sent to beneficiaries of various trusts under the will which it administered, entitled 'Review of Trust Investments', and dated June 1, 1928, reported that the Cuban and Guantanamo stocks were 'unsuitable for long term holdings, as trust investments'. Yet none of these beneficiaries, including the petitioner, Mrs. Clark the testator's widow, Mrs. Quincer, or Mrs. Ross, all then of full age, ever requested that a sale be made. Moreover, each of these women, in satisfaction of absolute gifts under the terms of the will, had received many shares of stocks in the same sugar companies. Although complaining that the trustee of this particular trust had not made a sale, not one of them, until the date of the accounting, had disposed of their own stocks. Doubtless, the securities were not suitable to long term holdings.

"But when to sell? 'Stocks of variable value ought not to be timidly and hastily sacrificed, nor unwisely and imprudently held.' (Per Finch, J., in matter of Weston, supra, at p. 511.) The surrogate determined that the trustee should have sold in September, 1927. Yet from the preceding December of 1926, the market prices for Cuban American had consistently fallen, the high and low for each succeeding month being lower than for the preceding. The same consistent decline followed through to the date of the accounting. The fall was due solely to the oversupply of sugar in the markets of the world. An oversupply of a commodity, compelling sales at prices netting little or no profit, in the long run necessarily induces under planting, which in turn is productive of higher prices for the commodity and increased profits to the producer.

No Responsibility for Error of Judgment

"HERE was a sugar company, coming through a period of depression with assets unimpaired, with a book value greater rather than less, with liabilities reduced rather than increased, with a cash condition notably sound, able to survive if any sugar company might. Under these circumstances was it the part of wisdom to sell the stock at what each month may well have seemed bottom price? With all the advices which the trustee received from those well-versed in the sugar trade and in finance, and those experienced in the vagaries of the stock exchange, counseling delay, how can it be said that it was negligent in omitting to make prompt disposal of the stocks? Under the circumstances, we think that the trustee, as the event has proven, was guilty, at the very most, of an error of judgment, in not making sale of the stocks at an earlier date. It may have been deficient in prevision and prophesy; it was not lacking in the exercise of care. Therefore, even if the immunity from liability provided for by the testator does not cover the case, we think that there has been no fault and that it was error so to find.

"The order of the Appellate Division should be reversed and the decree of the Surrogate's Court modified by striking therefrom the provisions surcharging the accounts of the trustee, with costs to the appellant in all the courts payable from the fund."

The corporate trustee can now feel secure in the belief that it cannot be held responsible for losses of this character even though guilty of an error in judgment, provided the court can be satisfied that due care and diligence have been exercised. This decision comes as a welcome relief.

Association Activities

Proposed Amendments to the Constitution

THE following proposed amendments to Article VIII and Article X of the Constitution, having been submitted to the Executive Manager by the proponents, A. C. Robinson, President of the Savings Bank Division, and Gilbert T. Stephenson, President of the Trust Company Division, more than thirty days before the annual session of the General Convention, are published according to the provisions of Article XI.

Amend Section 1 of Article X to read as follows:

Sec. 1. Divisions of the Association composed of the different business classes of the membership are hereby created as follows:

(a) A Trust Division whose scope shall embrace all trust matters of interest to Trust Companies and banks.

(b) A Savings Division whose scope shall embrace all matters relating to institutions receiving savings deposits.

(c) A National Bank Division whose scope shall embrace all matters of interest to National banks.

(d) A State Bank Division whose scope shall embrace all matters of interest to State banks.

Members of the Association may enroll as regular members of but one Division in which they shall have full powers and privileges of membership; they may also enroll as associate members of any other Division or Divisions, but without power to vote or hold office in such other Division or Divisions;

Provided that nothing herein shall prevent an individual regular member or an officer, director, trustee, manager or partner of a regular member of any Division from being eligible to appointment by any other Division upon any committee of such other Division other than the Executive Committee thereof.

Amend the second paragraph of Article VIII under the sub-title "Members" by striking out the word "Bank" between the words "Savings" and "Division" and by striking out the word "Company" between the words "Trust" and "Division."

PURSUANT to amendment to By-law III, adopted by the Executive Council, April 14, 1931, authorizing and empowering the Executive Manager to appoint one or more employees to perform the respective functions of secretary and assistant treasurer, proposal is made further to amend article VIII by striking out the second sentence under this sub-title, "Officers and Employees," which reads:

"The committee (meaning the Administrative Committee) shall appoint a Secretary of the Association who shall be a subordinate of the Executive Manager and an Assistant Treasurer and may in its discretion appoint one person to serve in both capacities. The functions and duties of the Secretary and Assistant Treasurer shall be prescribed by by-law."

Consonant with the above also amend the sentence next succeeding by striking out the word, "other" between the words "of" and "subordinate officers and employees."

Mid-Continent Trust Meeting

A WIDE range of practical problems relating to trust work will be covered by the program of the Seventh Mid-Continent Trust Conference at Grand Rapids, Michigan, September 17 and 18. The conference will be held under the joint auspices of the National Bank Division and the Trust Company Division. Subjects to be discussed by speakers include the ethics of selling trust service, effective advertising, personal solicitation, living trusts, investment problems, co-mingled trust funds, trust department responsibilities, business insurance trusts as business producers, systematic review of trust investments, cost and compensation, will planning and the legal liabilities of directors with respect to their trust department.

President Stephenson to Association Members

IN a letter to the JOURNAL, Rome C. Stephenson, President of the American Bankers Association and vice-president of the St. Joseph County Savings Bank, South Bend, Ind., directs the attention of all members to the relationship existing between the Association and the issue of travel cheques which it sponsors. He states that the cheque is of outstanding importance among the many services which the Association has made available to its members.

"The A.B.A. cheque," continues the letter, "was created by the Association in 1909 in answer to the widespread desire of its members to issue travel cheques in their own names. Their aim was to show that banks

were equipped in their own right to protect the travel funds of their customers.

"THE cheque has filled this need. Its distribution and acceptance, which are world-wide, are due primarily to the cooperation of member banks of the Association who for more than twenty years have given it their support. Their efforts have made it possible for the cheque to maintain a standard of service worthy of its origin. Much has been contributed by non-member banks and other desirable issuers who have been given the privilege of handling this cheque and who have broadened the scope of its service by providing additional sales and encashment facilities. But the great strength of the cheque lies in the member banks of the Association who have made it in a real sense what it was originally intended to be—their own travel cheque.

"Obviously it would not have been feasible, even twenty odd years ago, for each of the thousands of banks in the Association to issue its own travel cheque independently of the others. The confusion of so many different forms would have prevented wide general acceptance, and would have opened immeasurable opportunities for counterfeiting. Therefore it was agreed that the Association, in behalf of all its members, should create one uniform travel cheque, so devised that it might bear the name of the individual issuer.

"Equally important was the need of developing ready negotiability for these cheques wherever the public might present them in payment for goods or services, and of insuring prompt refunds in case of loss or theft. Manifestly this could be done only by entrusting the administration of the cheque to a responsible central agent. The Bankers Trust Company of New York was selected for this purpose and its position, as set forth in its agreement with the American Bankers Association, is solely that of agent for the institutions which issue these cheques. It is required to make periodical reports of its stewardship and must obtain the approval of the Association on all matters involving major changes in policy.

"IN my capacity as President of the American Bankers Association, therefore, I feel it is incumbent on me to describe in this communication several facts concerning A.B.A. cheques which every member should know. From the outset the Association cheque was established on the highest possible standard of quality and service. It has never been successfully counterfeited. It is certified and therefore acceptable for payments which by law or custom require certification. The protection it gives to issuers is as liberal as sound business practice permits. The encasher is equally protected. Holders enjoy maximum safety and 99 per cent of all losses are refunded on the same day that the affidavit of loss is received.

"The cooperation of Association members throughout the United States insures acceptance in this country while in Europe the leading banks issue A.B.A. cheques and stand ready to honor them in their thousands of offices. Many private travel agencies, cable and telegraph offices throughout the world provide facilities for cashing the Association's cheques. In Japan the Yokohama Specie Bank, Ltd., acts as agent in handling refunds on cheques lost by travelers. On behalf of the Association I can assure members that they can recommend A.B.A. cheques to customers with full assurance that these cheques reflect credit on their respective banks.

"It is a fundamental principle of the system, as well as a matter of mutual courtesy between members of our Association, that each of them shall accept the Association's official cheque at face value. Each bank expects other members of the Association to extend this courtesy to its customers carrying A.B.A. cheques. The Association relies on its members for continued adherence to this policy."

Convention Calendar

Date	State Association	Place
1931		
Sept. 17-18	Kentucky	Louisville
Oct. 22-23	Nebraska	Lincoln
Nov. 6-7	Arizona	Nogales
1932		
May 10-12	Texas	Austin
May 23-25	Illinois	Springfield
June 1-3	South Dakota	Watertown

American Bankers Association Meetings

1931	
Oct. 5-8	A. B. A. Convention, Atlantic City, N. J.
1932	
June 6-10	A. I. B. Convention, Los Angeles, Cal.

Regional Conferences

1931	
Sept. 17-18	Seventh Mid-Continent Trust, Grand Rapids, Mich.
Oct. 21-23	Pacific Coast and Rocky Mt. States Trust, San Francisco, Cal.
Nov. 5-6	Southern Bank Management Conference, Nashville, Tenn.

Other Associations

Sept. 16-18	Savings Banks Association of N. Y. Niagara Falls, N. Y.
Sept. 28-30	National Association of Supervisors of State Banks, New Orleans, La.

The Gap in Farm Loan Agencies

(*Continued from page 143*)

the usual seasonal accommodation which has been required by country banks. Correspondent banks in many areas have looked with disfavor upon agricultural paper and as a consequence country banks are finding it more and more difficult to meet the normal credit demands of their farmer customers. In addition, the low level of farm prices has seriously curtailed farm income, which, in turn, has been reflected in a lower level of deposits in agricultural areas.

As a consequence of all these factors, it is safe to say that there has been a definite breakdown in the credit facilities available to agriculture in large sections of the United States. It is to fill in this gap and to supplement those local agencies which still remain that the organization of credit corporations particularly recommends itself at this time.

New Book

REDUCING SEASONAL UNEMPLOYMENT. By Edwin S. Smith. Published by the McGraw-Hill Book Company, New York City. 296 pages.

In contrast with a widely current view that business cycles are inevitable, this volume recounts the experiences of several business leaders in attempting to smooth the hills and valleys of their respective enterprises. The subject is handled in a much broader way than the title would indicate. The problem of avoiding abrupt seasonal fluctuations in employment is discussed as part of the much bigger problem of keeping production on an even keel. Particularly timely and valuable are the numerous specific instances in which firms, named in the book, helped to stabilize themselves by applying certain remedies.

INDEX TO ADVERTISERS

WHAT DO YOU THINK?

***Being a more or less personal talk between the* EDITOR *and the* READER**

Waste at Home and Abroad

A TRANSLATION of *Russia's New Primer*, a presentation of the new social and economic plan on which the Soviet is working, has been published in this country.

In Russia, it was designed for the education of the youth; in this country, it is expected that it will have an adult audience.

Comprehensive, bristling with facts, it came from the hand of an author literally filled with enthusiasm over the work and the plans of the Soviet, and several educational authorities in America have hailed it as a find, but let us keep our feet on the ground.

To make striking comparisons between the Communist theory and the economic order of a capitalistic system, the *Primer* makes frequent reference to America.

The author has selected rare, or isolated occurrences and, in the absence of a specific statement to the contrary, leaves the Russian reader to jump to the erroneous conclusion that these occurrences are things of daily practice here in the United States.

To illustrate: Following the heading, "A Mad Country," by which, of course, is meant the United States, there appears the following:

"On the first of September, 1920, a train left Washington: a locomotive and thirty cars. The cars were loaded to the top with watermelons. The melons were ripe and sound, and every one cost 25 cents—50 kopecks in our money. The train went rapidly northward.

"On the bank of the Potomac River, where the track passes along a cliff, the train stopped. Workers bustled about near one of the cars.

"And all at once, splash, splash! One melon fell into the water, a second, a third. A whole stream of melons rushed over the cliff into the river below. They jumped like croquet balls, collided, and broke into bits. Near the shore in the water a raft of melons was formed—a green, floating island. And the melons continued to come. The first car was followed by a second, the second by a third. The work went on efficiently; a car in two minutes; thirty cars in an hour.

"In 1920 thousands of gallons of milk were poured into the rivers and creeks of southern Illinois.

"In Ocober, 1921, placards were placed along the highways in the Middle-Western States advising the farmers to burn corn instead of coal.

"On June 24, 1924, the *New York World* announced: 'Thousands of packages of cucumbers and other fresh vegetables were dumped on the offal dock today.'

"Every few years a large percentage of the Maine potato crop is left to rot in the ground.

"In the Western States again, as in 1921, grain is being burned in place of fuel."

There is waste in the United States as everyone knows, but to make, by inference, the quoted things the rule, will in this country carry its own refutation. But sometimes what appears on the surface as waste is in reality an investment as is indicated by the experience of one farmer. On account of low prices, he one year left hundreds of acres of potatoes in the ground. The price of digging them would have been a loss, bushel by bushel, yet he later declared that his determination not to harvest that crop constituted one of the best investments he had ever made in farming because the potatoes left in the soil had so increased its fertility that in succeeding years he more than made up his loss for the crop that was not harvested.

And it may occur even in Russia that an occasional student, reflecting on how little he has, and how much more he would like to have, may for all his enthusiasm over the Plan traitorously entertain the thought that whatever its defects may be, the American capitalistic system does produce with an abundance!

But the *New Primer* makes no mention of a Russian waste at which the whole world stands aghast—the waste of human lives!

The zealot who writes under the influence of the Soviet "tempo" is exercised over the waste of watermelons and potatoes here in America, but says nothing about the multitude of Russians who are brutally and heartlessly deported to Siberia or other places far from their humble homes, separated sometimes from their families, driven off into strange regions and thrown into slavery to work until death relieves them from their bondage!

How much, even numerically, this waste amounts to is not known. The Congressional Committee reported that as many as 5,000,000 persons may have been thus driven to regions far from their homes.

In our meditations over this so-called grand new plan that its enthusiastic supporters believe is going to do so much more for humanity than the capitalistic system, we shall be able still to endure the remembrance of the waste that occurs in our economic system, if we think of that waste of human flesh and bones over there!

Are potatoes in America of so much more value than human lives in Russia that authors may sob over the former but regard the latter as not worth mentioning?

It is true that we have a waste of lives here in the United States due to the wealth of our industrial equipment, and to the operation of about 28,000,000 automobiles, but every other country which attains a comparable development will pay the same penalty. In countries where machinery is new to many of those who work with it or around it the percentage of accidents is pretty sure to be greater than our own.